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Employment policy beyond the crisis

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Foreword

László Andor
Commissioner for Employment, Social Affairs and Inclusion

After a long period of socio-economic convergence between Member States, Europe has experienced major disparities in economic, employment and social outcomes in recent years.

The complexity and the consequences of the financial and economic crisis have led us to significantly upgrade the agenda for European employment policy. Since 2012, Europe has strengthened its employment policy through better analysis and guidance, stronger coordination and legislative proposals to bring about a genuine European labour market.

Our initiatives all aim to support progress towards the Europe 2020 employment target in the context of the reinforced economic governance.

We first put forward an *Employment Package* which broadened the European Employment Strategy in several ways. It moved beyond the traditional focus on the quantity and quality of labour supply and emphasised the need to boost demand for labour as a prerequisite for higher employment and consequently higher economic growth. It defined a new paradigm for employment policies focusing on labour market dynamics – securing transitions, investing in skills and fostering mobility in a genuine European labour market. It also presented tools for strengthening EU employment governance as part of the European Semester – i.e. the EU's new economic governance framework.

A few months later, confronted by the magnitude of youth unemployment, the Commission launched a *Youth Employment Package* which stepped up our actions with new tools. Its key element is the Youth Guarantee - a comprehensive scheme ensuring that every young person under 25 receives a good-quality offer of a job, apprenticeship, traineeship or continued education within four months of leaving school or becoming unemployed. The Youth Guarantee is both a measure to immediately support jobs for young people and a structural reform to drastically improve school-to-work transitions. The European Council supported this policy agenda by setting up a dedicated financial instrument of €6 billion to implement the Youth Guarantee.

In 2013, the severe implications of employment and social imbalances for economic prosperity and political stability in the monetary union at last started to be widely acknowledged. The Commission presented proposals to *strengthen the social dimension of the EMU*, in response to a request from the European Council which had identified this as one of the key aspects of EMU reform. A key element of the social dimension of the EMU has been the creation of the Scoreboard of key employment and social indicators which has been immediately integrated in the EU's economic governance framework. The Scoreboard allows us to identify, earlier and better, major employment and social imbalances that may affect the proper functioning of the EMU and which should therefore be immediately addressed.

The social dimension of the EMU also relies on the consensus that a resilient and growth-friendly EMU would require a solidarity mechanism between euro area Member States that would limit the effect of economic crises, social imbalances and economic divergence. EMU reform should thus be seen as a key component of the European recovery strategy, and as a precondition of progress towards the Europe 2020 goals.

Better matching between job seekers and vacancies across Europe is an obvious way to support employment as well as economic growth. Following up on the Employment Package, we have completed a number of steps towards a *genuine European labour market*, where people can easily seek and take up work in other Member States while having their employment and social rights protected. As part of the effort to facilitate intra-EU labour mobility, the Commission proposed a reform of the system of the European Network of Employment Services (EURES) in order to turn it into a pan-European placement and recruitment service.

The economic crisis has produced socio-economic divergences and inequalities. Populism, euro-scepticism and extremism have gained support.

Achieving job-rich and inclusive growth in the second half of this decade and thereby making visible progress towards the targets set for 2020 are today vital objectives of the EU. Restoring the capacity to achieve balanced growth and socio-economic convergence in Europe is a key condition for the EU to regain the *confidence* of our citizens.

However, we now know all this requires more initiatives, a greater effort and better policy coherence.

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CHAPTER 1

Key employment policy guidance during the crisis: an overview

Placing employment and social policies at the core of the EU economic governance

Employment policies play a vital role in promoting socio-economic convergence in the European Union (EU). The **European Employment Strategy** (EES) is a key instrument for converging the economies of the Member States, so as to create more and better jobs throughout the EU. It was adopted in 1997 by the Heads of State and Government at the Luxembourg Jobs Summit, after inclusion of the new title 'Employment' in the Treaty on European Union (TEU). The EES provides a framework for coordinating the employment and labour market policies of the Member States.

However, the global economic and financial crisis of the last six years has highlighted the unsustainability of economic policies in some Member States. It has also underlined structural weaknesses in Europe's economy and EU-level governance. Economic and social disparities in Europe have increased enormously as a result of this crisis, compounded by four years of sovereign debt crisis. Consequently, the convergence process has slowed and even gone into reverse in some areas of Europe.

In 2010 and 2011, the EES was strengthened by the adoption of the Europe 2020 Strategy and by the European Semester, which is the new EU framework for policy coordination.

In 2010, with the **Europe 2020 strategy** for smart, sustainable and inclusive growth, the EU set up a comprehensive policy agenda for the following decade. The Strategy's goal is to address shortcomings of Europe's growth model as well as major long-term challenges such as pressure on natural resources and climate change, demographic and technological changes, and globalisation. The Strategy defines headline targets for employment and social policies at EU level; these are complemented by national targets for each Member State. The EU's three targets here are:

- EU employment: raising the employment rate to ensure that 75 % of 20-64 year-olds are in employment;
- EU poverty and social inclusion: lifting at least 20 million people out of poverty or the risk of poverty and social exclusion;

- EU education: reducing early-school leaving and ensuring that at least 40 % of 30-34 year-olds complete tertiary education.

The **European Semester for economic policy coordination**, set up in 2011, is a first decisive step to address structural weaknesses in European economic governance. It aims to enhance the coordination of policies in several areas, including fiscal, economic, employment and social. The crisis has notably highlighted the importance of labour markets and welfare systems, as well as their coordination, and combining them to strengthen socio-economic policies. The European Semester is a six-month policy cycle that provides a framework for the coordination and monitoring of EU economic and fiscal policy, including employment and social policies.

Box 1.1 The European Employment Strategy

Based on Articles 145 to 148 of the TFEU, the European Employment Strategy provides a framework for coordinating employment policies, by setting objectives, monitoring developments and performance, and based on this monitoring by addressing formal recommendations to each government.

As clearly put by the Treaty, Member States regard promoting employment as a matter of **common concern** and their action should be coordinated in this respect.

The Treaty provides for four tools as part of the European Employment Strategy: the Employment guidelines; the Joint Employment Report; the National Reform Programmes submitted by national governments, and the Country-Specific Recommendations issued by the Commission. These tools are essential to support the European strategy for growth and employment – the Europe 2020 Strategy – and the employment targets in particular; they have been fully integrated into the European Semester for policy coordination.

However in 2012, it was obvious that the lengthy crisis had left millions of Europeans unemployed or trapped in precarious work. National welfare systems had been substantially weakened due to the sovereign debt crisis. Socio-economic disparities had also started to grow, particularly inside the Euro Area, chiefly because of the incomplete design of the Economic and Monetary Union (EMU). The latest figures were worrying: EU unemployment climbed to 10.2 % in February 2012 and six million jobs had been lost in the EU since 2008. Radically new approaches and tools would be needed to deal with the huge challenges of employment, social inclusion and combating poverty. In view of these specific challenges, the European Commission has adopted **key policy initiatives for employment policy.** These initiatives address key employment challenges in the EU and are designed to strengthen one another; they also address systemic weaknesses in European governance, including the EMU.

A first step towards a job-rich recovery: the Employment Package

Employment growth depends greatly on the EU's capacity to generate economic growth by calling on appropriate macroeconomic, industrial and innovation policies. Likewise strengthening a job-rich growth requires employment policies that support job creation; facilitate successful professional transitions and increase the labour supply; and achieve a better match of skills with the needs of the labour market. In summary, employment policies contribute to the recovery in the short term. They are also part of vital social investments aimed at preventing a rise in social and fiscal costs in the long term.

The **Employment Package** in 2012 provided a policy agenda for a job-rich recovery. It created a new approach to employment policy by underlining the importance of boosting job creation, restoring a dynamic labour market, and further strengthening the European coordination of employment policy.

Economic activities in Europe are being reshaped by longer term structural changes and not just by the recession in some countries and the lengthy sovereign debt crisis. These changes concern for example the need for a shift to a green and resource-efficient economy, demographic ageing, and rapid technological changes. The changes are at the core of the Europe

2020 strategy. They affect labour markets in various ways, particularly when creating and maintaining jobs. The Employment Package is strongly focused on **job creation**, especially on harnessing the job creation potential of three key sectors: the green economy, ICT, and health and social care.

The Employment Package also presented a new approach to employment policy, building on the concept of the **dynamics of labour markets**. Labour markets are considered 'dynamic' if they allow for transitions that enhance productivity and job quality; if workers have the right skills; and if people are mobile enough to respond to geographic trends in job vacancies. The Employment Package introduced a three-pronged approach for achieving a dynamic labour market: focusing on balanced labour market reforms to secure labour market transitions; investing in skills to support the development of human capital; and building a genuine European labour market by facilitating geographical mobility.

Lastly, the Employment Package presented **stronger EU employment governance as part of the European Semester**. This built on the European Council acknowledgement in December 2011 of the importance of stronger economic coordination as well as better monitoring of employment and social policies. Better EU employment governance and coordination had become essential for at least two reasons. Firstly, labour market participation, unemployment and labour cost all play a role in macroeconomic stability. Secondly, the crisis had revealed the interdependence of EU economies and labour markets, underscoring the need for better coordina-

tion of employment and social policies in line with the European Employment Strategy.

Helping the hardest hit: the Youth Employment Package

Young people are among the groups that have suffered most as a result of the crisis. Over one in five young people on the labour market cannot find a job; 7.5 million young people aged between 15 and 24 are not in employment, education or training; and 30.1 % of unemployed people under the age of 25 have been out of work for more than a year. A few months after the adoption of the Employment Package, the Commission adopted the **Youth Employment Package**. This is a **dedicated policy agenda that addresses the specific needs of young people** in response to unacceptably high youth unemployment in the EU.

The Youth Employment Package was launched in December 2012. It builds on the Youth Opportunities Initiative of 2011, which called for a stronger partnership between the Commission and Member States. With the Youth Employment Package, the Commission is stepping up its action with concrete initiatives, i.e. new and improved structural tools to help young people to find employment.

The **Youth Guarantee** lies at the heart of the Package. The Youth Guarantee is a key structural reform which relies on a set of measures, all aiming to at improve the transition between school and work. This is an entirely new approach: within four months of leaving school or becoming unemployed, all young people under 25 shall receive a good quality offer of employment, continued education, an apprenticeship or a traineeship. The Youth Guarantee, originally proposed as a draft Council recommendation, was rapidly adopted by the Member States in April 2013. It is supported by EU funds (the European Social Fund and the dedicated Youth Employment Initiative). Twelve months later, all 28 Member States had designed their own national Youth Guarantee scheme: implementation of these schemes is closely monitored under the European Semester.

The Youth Employment Package presented additional tools to support the implementation of the Youth Guarantee and in particular for improving the quality and supply of apprenticeships and traineeships. Under the recently launched **European Alliance for Apprenticeships**, successful apprenticeship schemes started to expand across the EU. Similarly, and fully supporting the Youth Guarantee, the **Quality Framework for Traineeships** adopted by the Council in March 2014 aims at improving work conditions for trainees. For example there is a requirement for traineeships to be based on a written agreement that explains whether or not the traineeship is paid, as well as a requirement on improving learning content. The Youth

Employment Package also addresses young people's mobility and calls for people to make the most of wider **cross-border job opportunities** within the EU.

The EU offers significant financial support to Member States that implement the Youth Guarantee. In addition to the funding available under the European Social Fund (ESF), a dedicated financial instrument was set up in 2013: the **Youth Employment Initiative** – with a budget of **EUR 6 billion** for the period 2014-15 – targets regions where youth unemployment exceeds 25 % (see also Chapter 3 on youth).

The social dimension of the Economic and Monetary Union

Although major steps had been taken to improve EU economic governance, the crisis revealed major operational gaps in the monetary union. The EU has paid a very high social price for the ensuing economic and structural adjustments. Moreover, disparities in the social and employment situation between Member States have continued to grow.

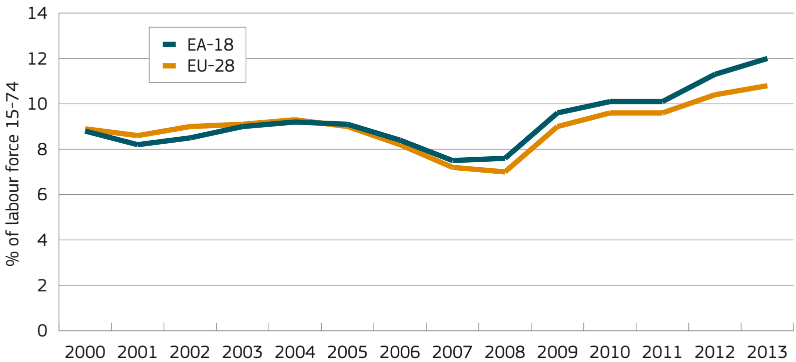
In October 2013, the Commission proposed a core initiative and for the first time presented new tools for **strengthening the social dimension of the EMU**. To ensure more integration of employment and social policies in economic governance, the Commission has proposed a new early-warning tool. Called the **scoreboard of key employment and social indicators**, it indicates which major employment and social problems should be integrated in the European Semester. The scoreboard monitors five key employment and social areas that are crucial for a well-functioning EMU: unemployment; youth unemployment and the rate of those not in employment, education or training (NEET rate); household disposable income; the at-risk-of-poverty rate; and income inequalities.

In this context, the Commission also underlined the need for better coordination of employment policies leading to **new social benchmarks**. It also stressed the importance of combining the steps taken on fiscal responsibility and coordination of structural policies with more financial support and **new solidarity mechanisms**. It repeated that the EMU will need a fiscal capacity in the long term and that an 'automatic fiscal stabiliser' could be based on partial pooling of national unemployment insurance schemes. Lastly, there should be much more **involvement of the social partners** in setting economic policy priorities, both at European and national levels.

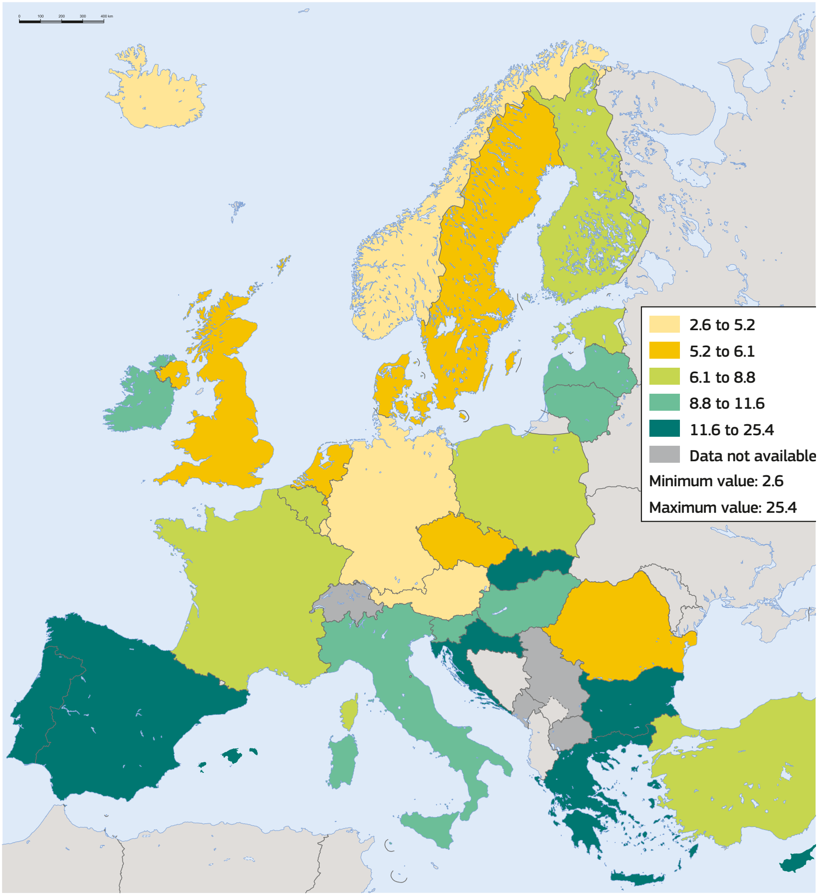
Labour mobility initiatives

Thanks to intra-EU labour mobility, EU citizens can look for job opportunities abroad and improve their life prospects. This is particularly important after the long economic crisis, with unemployment rates across Member States diverging sharply. Rather than waiting for a suitable opportunity at home, unemployed people from some EU countries may find it easier to move to other EU countries where they can put their skills to productive use. Some EU countries also struggle with the longstanding problem of finding staff with certain skills: cross-border labour mobility can help them deal with 'recruitment bottlenecks' like this. In short, intra-EU labour mobility supports economic growth and employment in the Union as a whole. In recent years, the Commission has taken a number of policy and legislative initiatives aimed at promoting labour mobility in the EU. They are based on a three-pronged approach: further removing obstacles to labour mobility; actively supporting labour mobility; and addressing challenges linked to labour mobility (both for countries of origin and countries of destination).

Chart 1.1 Unemployment Euro Area vs. EU-28



Map 1.1 Unemployment rate as a percentage of the labour force



Source of data: Eurostat

CHAPTER 2

Fighting unemployment in a major recession

The unemployment crisis

Between 2008 and 2013 the unemployment rate in the EU-28 rose from 7.1 % to 11 %, with the Euro Area as high as 12 %, and some of the Member States most hit by the recession (such as Greece and Spain) worryingly exceeding 20 %. Youth unemployment soared to 23.3 % in 2013. The increase in the number of jobseekers has been uneven across Europe. The crisis even put a sudden stop to the convergence process in terms of employment (and income per capita) seen in the previous decade, namely since the introduction of the euro. Figures show that, after the crisis, the average unemployment rate more than doubled in Southern Member States in the Euro Area, while it remained roughly constant in Northern and Continental ones. The gap between the lowest and highest unemployment rate, respectively 5.4 % in Austria and 27.5 % in Greece, is now well above 20 percentage points – and reaches an alarming 50 % when taking youth unemployment into consideration (the youth unemployment rate is respectively 7.9 % in Germany and 58.3 % in Greece). The crisis also had adverse effects on average duration of unemployment. In 2013, almost half of the unemployed (47 %) had been in that position for more than one year; this rate saw peaks of more than 60 % in some countries.

These developments risk leaving deep scars on Europe's social fabric, making it harder to achieve the **employment and social objectives** enshrined in the treaties (Article 3 of the TEU commits the EU 'to work for the sustainable development of Europe […], aiming at full employment and social progress').

The Employment Package, a set of documents covering relevant employment policy fields, provides guidance to Member States. It shows ways they can overcome the negative employment effects of the crisis and how they can create a base for more dynamic and inclusive labour markets. The Employment Package underlines the importance of achieving the right **balance between demand-side and supply-side policies.** It also indicates that the EU's traditional focus on quantity (participation) and quality (skills) of the labour supply is being joined today by a new emphasis on the need to boost demand for labour: this is a prerequisite for higher employment and consequently economic growth.

Supporting job creation

Supporting job creation is one of the key objectives of the Employment Package, adopted by the Commission in April 2012.

It is especially important because **labour demand tends to be subdued during a recession**, due to uncertainty, low confidence and poor aggregate demand. A solution to this is the development of a policy framework that creates favourable conditions for new hiring, particularly targeting more vulnerable groups such as young, female and low-skilled workers.

Reforms in labour taxation – designed to make hiring less expensive for employers, while increasing labour incomes, especially for low-wage earners – are an important step in this direction. They have significant potential to boost job creation while helping to maintain household demand. A reduction of the **tax wedge** (the difference between the total salary costs paid by the employer, inclusive of taxes and social contributions, and the net income that the worker receives) can be effectively achieved without harming a budget. For example, **taxation can be shifted in a budgetary neutral way** towards environmental, property or consumption taxes – which are less detrimental to employment growth.

Besides taxation reforms, other policy tools can be used to revive job creation in Europe. For instance, the Employment Package emphasises the importance of:

- **targeting hiring subsidies to *new* hiring**, especially among vulnerable groups such as young or long-term unemployed, whilst ensuring that incentives are designed to lead to the net creation of jobs;

- introducing **in-work benefits** to boost 'take home' pay for low-skilled workers, to encourage them to take up work while alleviating the wage pressure for employers; and

- modernising **wage-setting systems**, taking into account the autonomy of social partners as well as national practices, to ensure that real wages reflect productivity developments and support aggregate demand. For this demand, the setting of **minimum wages** at appropriate levels can be beneficial in several ways: it helps to prevent in-work poverty, ensures decent job quality, and sustains consumption demand – particularly during a recession.

Box 2.1 Exploiting the job creation potential for the future

In line with the Europe 2020 Strategy, the Commission's Employment Package called for extra effort to support job creation in the three fast growing sectors accompanying the key structural shifts of our economies and societies:

- *Boost the job potential of the green economy.* The evolution of markets for products and services, R&D and innovation policy, new regulatory frameworks and market-based instruments are already changing industrial and economic structures towards greater energy and resource-efficiency, leading to creation or redefinition of many jobs across almost all sectors and affecting territories differently. Managing such a major transition successfully calls for joined-up efforts on the part of the EU and Member States. Two years after the Employment Package, the Commission adopted a Green Employment Initiative (July 2014). This sets out an integrated framework for employment and labour market policies, including supporting job creation by shifting taxation away from labour and on to pollution, promoting green public procurement, entrepreneurship and social enterprises; fostering the development of appropriate skills; anticipating sectoral changes and securing transitions; supporting European social partners to develop further joint initiatives at both cross-industry and sectoral levels; and monitoring employment in the green economy through the European Semester process.
- *Develop employment in the health care sector.* Ageing populations and rising demand mean that the health care sector is a key driver for jobs in the future. Moreover as a consequence of family changes and the need for better life-work balance, new services covering a broad range of activities are also created and can be a source of job creation. Health care in particular is highly labour intensive and one of the largest economic sectors in the EU – accounting for around 17 million jobs (8 % of all jobs). Despite this, the sector faces major challenges such as an ageing workforce and too few new recruits to replace retirees, as well as significant employee turnover in some fields due to demanding working conditions and relatively low pay, plus the need for new skills to deal with innovative technologies. The 2012 action plan for the EU health workforce seeks to tackle these challenges and boost employment by improving health workforce planning and forecasting, anticipating future skills needs, improving recruitment and retention of health professionals, and mitigating the negative effects of migration on health systems.

- *Support an increase in highly qualified ICT labour and promote digital skills across the workforce.* Development and uptake of ICT applications will become crucial for boosting international competitiveness of European business and in turn increasing employment. Making European firms and workers more ICT literate and competent will require considerable effort in terms of education, as well as skills policies for workers, and infrastructure. The Employment Package proposed a set of key actions for ICT employment and further to this the Commission set up in 2013 a multi-stakeholder partnership – the Grand Coalition for Digital Jobs – to tackle the lack of digital skills in Europe and the several hundred thousand unfilled ICT-related vacancies. The Coalition aims to facilitate collaboration among business and education providers, as well as public and private actors, to attract young people into ICT education and to retrain unemployed people.

Restoring the dynamics of labour markets

Europe's relative competitiveness in the global economy and structural changes affect labour markets in various ways, particularly the creation and maintenance of jobs. Given some predictable structural shifts, Europe's economy can only be competitive and thrive if it has dynamic and inclusive labour markets, with strong labour market institutions and people who have the right skills. Labour markets need to be **dynamic** – encouraging workers' transitions and ensuring that these transitions are quality ones; investing in skills; and creating a genuine EU labour market (see Chapter 5).

Securing transitions in inclusive labour markets

During their careers, many workers make several moves, whether upwards, sideways or downwards. To boost the dynamics of the labour market, it is essential to ensure security during transitions – i.e. 'making transition pay' for workers – such as from job to job or from unemployment to work. The Employment Package brings a set of balanced structural reforms that support more dynamic and inclusive labour markets. Workers need security throughout their career, during transitions between different jobs or between different types of labour market status, such as training to employment, maternity leave to employment, transitions towards self-employment and entrepreneurship etc. This security should provide individuals with the necessary means to maintain their employability and make transitions work.

Contractual arrangements should be designed so as to avoid unequal treatment of different groups of workers. To date, temporary and other non-standard contracts have increased the duality of the labour market. Generally speaking, these jobs do not serve as stepping-stones for more permanent forms of work and they harm the career prospects of affected workers, especially the young and low-skilled.

Unemployment benefit schemes are essential for supporting transitions from unemployment back into work. In economic downturns, **unemployment benefits act as automatic economic stabilisers**, reducing the risk of poverty for the unemployed while sustaining aggregate demand. Activation requirements should be part of a mutual responsibilities approach, providing incentives for work whilst ensuring income; providing personalised job-search assistance and guarding against the risk of poverty.

Well-designed unemployment benefits should therefore be accompanied by sufficient **investment in Active Labour Market Policies** (ALMPs). Modern and efficient Public Employment Services (PES) are also important for supporting workers' rapid (re)insertion into the job market, particularly the most disadvantaged groups. Because PES are essential for implementing ALMPs, they must be given the right capabilities and tools to understand the needs of employers as well as to improve delivery of personalised services to jobseekers.

Finally, setting **minimum wages at appropriate levels** also contributes to securing labour market transitions by preventing the growing trend of in-work poverty and helping to ensure decent job quality.

Investing in skills

Europe has long faced the problem of mismatches between workers' qualifications and skills and job requirements; the crisis has made this situation worse. According to Eurofound, 39 % of EU employers reported difficulties finding workers with the right skills in 2013. Investing in skills is crucial to overcome these bottlenecks. However, this must be done after monitoring and anticipation of skills needs. To tackle skills mismatches and develop monitoring tools for skills needs, the Employment Package proposed, amongst other things, the launch of the EU Skills Panorama. Through a dedicated website, this facility brings together all existing anticipation tools at EU and national level, providing information on short-term and long-term labour needs in particular sectors.

Box 2.2 The Employment Package legacy in the European Semester's country-specific recommendations

- *Job creation measures* - Some EU countries took steps to stimulate job creation through lowering labour taxation, using employment subsidies and promoting entrepreneurship. EU guidance on shifting taxation towards consumption and environmental 'bads' has also been provided. Following up on the Employment Package, initiatives to exploit the potential of job-rich sectors have been taken. Green employment has been supported through EU Funds, targeted subsidies for eco-industries, and dedicated skills development.
- *Wage setting* - Under the decisive impulse of the Employment Package, the European Semester guidance on wage setting (including minimum wage and wage indexation) takes into consideration the complex role of wage-setting systems in our economy, both from a macro and micro- economic perspective. CSRs today reflect a range of situations. In some cases, Member States and social partners should ensure that

(minimum) wage developments are in line with productivity and support job creation, while in others, the European guidance requires targeted increases of (minimum) wages to support aggregate demand.

- *Labour market segmentation* - Under the impulse of CSRs, Member States adopted significant reforms in employment protection legislation aiming to increase flexibility while securing labour market transitions through combating segmentation, and increasing internal flexibility. Actions were also initiated to boost efforts against undeclared work.
- *Active Labour Market Policies (ALMP)* – One of the most visible impacts of CSRs has been in the areas of ALMPs, and education and training. CSRs pressed an increasing number of Member States to continue strengthening their active labour market policy measures for more disadvantaged groups (youth, older workers, disabled, immigrants and long-term unemployed) and to enhance the capacity of their public employment services (PES), including international cooperation within EURES.
- *Unemployment benefits (UB)* – As suggested by the Employment Package, social protection for atypical employment arrangements, such as self-employment, has been the objective of reforms in many countries. In some cases, CSRs point to UB reforms focusing on conditionality linked to active job search, on eligibility criteria or targeting the benefits.
- *Gender equality and work-life balance* – A number of Member States with CSRs related to improving female participation in the labour market by increasing the availability of childcare made efforts to extend the provision of care services. Nevertheless important challenges remain in some countries to reduce the gender pay gap.
- *Investing in skills* – Education, training and life-long learning have been key areas of reform within the European Semester. Particular emphasis was put on improving vocational education and training systems, including by developing dual learning models. Several other measures and larger scale reforms were adopted on higher education, promoting adult learning, and tackling early school leaving.

CHAPTER 3

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Initiatives on youth employment

The figures are alarming. Some 5.2 million young people are out of work in the EU today. The youth unemployment rate, which stood at 23.5 % in 2013, is thus over twice as high as that for people of working age in general. A staggering 7.5 million of people aged 15-24 are not in employment, education or training (NEET). One third of young unemployed have been jobless for more than a year. Even when they find a job, young people often find themselves trapped at the precarious end of the labour market: 42.7 % were on temporary contracts in 2013 compared with 13.8 % of the overall population of working age.

As Map 3.1 illustrates, the magnitude of the problem differs significantly between Member States and regions in the EU. In the best-performing country, the youth unemployment rate is below 10 %, compared to more than 50 % in the worst-affected countries.

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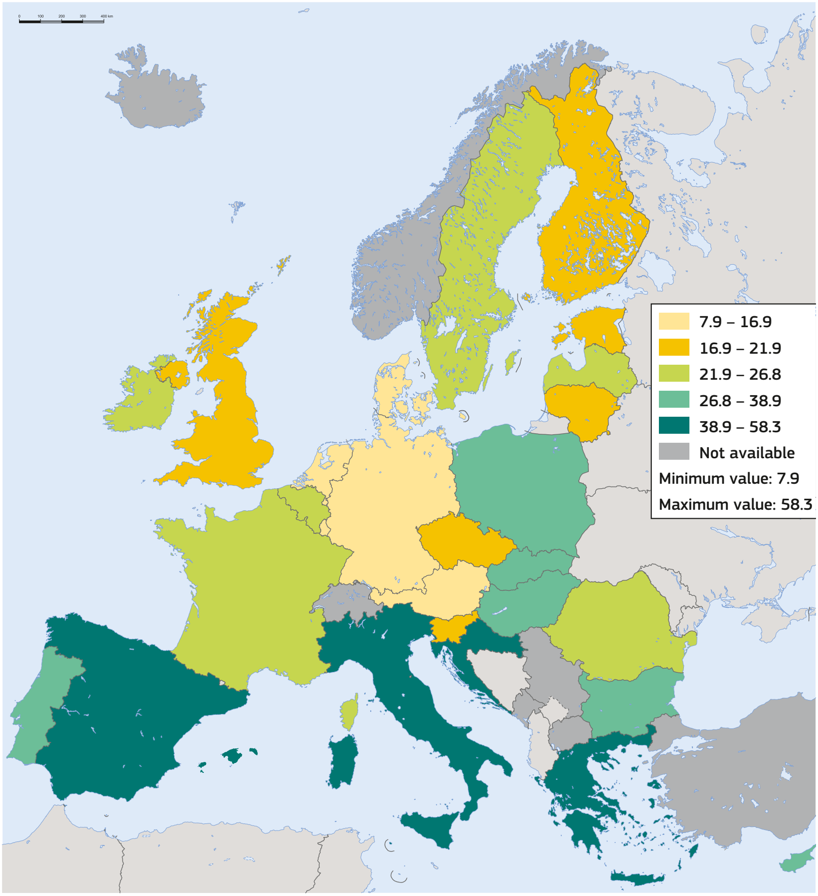
Map 3.1 Unemployment rate less than 25 years



Source of data: Eurostat

Youth employment moved to the top of the EU's agenda in December 2012, following the launch of the Youth Employment Package. This focused on improving young people's school-to-work-transitions by proposing a Youth Guarantee, and through supportive initiatives on apprenticeships, traineeships and mobility.

EU Heads of State and Governments acknowledged the challenge, calling for dedicated summits on youth employment in Berlin (July 2013), Paris (November 2013) and Brussels (April 2014). In his address to the Brussels Conference, hosted by Commissioner Andor, President Barroso said: *"Our young people hold the key to Europe's future dynamism and prosperity. Their talents, skills and creativity are essential to ensure European's growth and competitiveness. The reality is that youth unemployment has reached alarming levels, representing a waste of human resources and talent that Europe simply cannot afford. In Europe we find ourselves facing a challenge: growth is resuming, slowly but surely, but that urgently needs to be translated into job opportunities. Our top priority is to fight unemployment, and inside this priority, the major issue we have is the issue of youth unemployment."*

The Youth Guarantee, a new policy for youth employment

The Council Recommendation on Establishing a Youth Guarantee, as proposed by the Commission, underpins **a new approach to youth employment policy**. The Youth Guarantee is based on experience gained in Austria and Finland, showing that investment in young people pays off. This proposal was adopted very quickly, underlining an EU-wide sense of urgency about youth unemployment. In April 2013, EU Employment Ministers reached agreement. So all 28 EU Member States have signed up to implementing a Youth Guarantee.

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The idea behind the Youth Guarantee is that **no young person should be left in unemployment or inactivity for longer than four months**. Immediate comprehensive and systemic responses are needed to tackle the complex, structural causes of youth unemployment and exclusion. A Youth Guarantee is therefore a step forward, a major structural reform for setting up structures, processes and measures that can quickly offer all young people a concrete route towards employment. It combines short-term measures with longer term reforms. It supports **job creation**, for example through recruitment subsidies for jobs or apprenticeships, and it improves **employability** of young people, through better functioning education institutions or better functioning public employment services.


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The Youth Guarantee, a key investment

A Youth Guarantee is an investment and, as such, it does have a fiscal cost for Member State governments. However, the costs of not acting are far higher.

The International Labour Organisation estimated the cost of setting up Youth Guarantees in the Euro Area to be EUR 21 billion per year. However, according to the European Foundation for the Improvement of Living and Working Conditions, the current economic loss in the EU of having 7.5 million young people out of work, education or training could be as high as over EUR 150 billion, when measured as benefits paid out and lost output.

Youth unemployment also brings long-term costs to the economy and society. The individuals concerned also face increased risk of future unemployment, health problems and poverty.

EU funding to support the Youth Guarantee

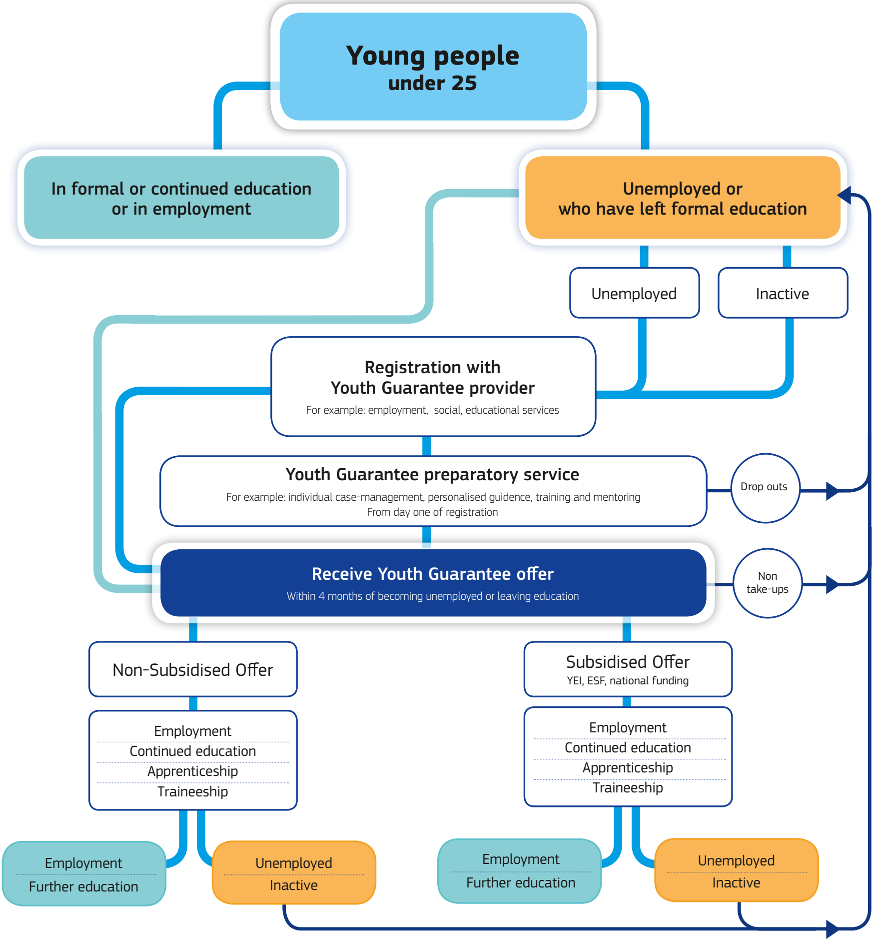
The EU has large financial instruments to support the setting up of a Youth Guarantee in Member States, most notably from the European Social Fund and through the Youth Employment Initiative. To create a Youth Guarantee, Member States also need to give priority to youth employment measures in their national budgets.

To increase available EU financial support to the regions and individuals struggling most with youth employment and inactivity, the EU has agreed to create a dedicated Youth Employment Initiative (YEI). The YEI exclusively targets young people not in employment, education or training (NEET) up to age 25 and, where the Member State believes this is relevant, also those up to age 30. The YEI will help Member States to fight youth unemployment by providing them directly with quality employment, continued education, traineeships or apprenticeships. In so doing, it will support the implementation of the Youth Guarantee. The YEI has a budget of EUR 3.2 billion from a specific EU budget line for youth employment and at least another EUR 3.2 billion from the European Social Fund (ESF) national allocations. It will therefore complement the support to be provided by the ESF for similar types of activities of at least 77.1 billion during the 2014-2020 programming period (exact amount of ESF funds will be determined after all relevant programming documents have been adopted).

Youth Guarantee happening on the ground

All 28 Member States rapidly submitted **Youth Guarantee Implementation Plans (YGIP)**, as requested by EU leaders, and these were fully assessed by the Commission over the **2014 European Semester**. Member States have set up Youth Guarantee schemes that include strategic reforms to strengthen the capacity of PES, reforms to education and training systems, and creating strong partnerships in order to reach inactive young people.

Chart 3.1 The Youth Guarantee pathways



Box 3.1 The Youth Guarantee pathways

All young people under 25 are to receive a good quality offer of employment, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed.

The Chart 3.1 outlines the Youth Guarantee (YG) pathways. The YG targets young people who are unemployed or have dropped out from formal education. The YG applies to all of them. This includes some young people who are unemployed/looking for work. However, some young people are not actively searching for a job. Both of these groups should be able to register with a YG provider. In most Member States, this is the Public Employment Service. A major challenge is to develop comprehensive outreach work to reach those young people who are currently 'inactive' and often very disconnected from the labour market.

Once they are registered, some young people find that the pathway will start with preparatory services. This can involve for example personalised guidance, training and/or mentoring. These services should be provided as of day one, but they do not constitute a YG offer in themselves. Once a young person has been prepared to benefit from an offer, a proper YG offer should be forthcoming. At the same time, some young people are ready, even without such preparatory intervention, to receive a YG offer within the four month period.

The YG offers of employment, continued education, apprenticeships or traineeships can be non-subsidised, available on the market. In other cases, YG offers can be subsidised, whether funding is provided from the European Social Fund, the Youth Employment Initiative, national funding or a combination of these. The desired outcome is that the young person ends up in stable employment, or emerges with enhanced employability from apprenticeship or traineeship; the next goal is to try and ensure lasting inclusion in the labour market.

At each stage, it is inevitable that some young people will choose to leave or will decline to take up a YG offer. This may be due to the support services received not being appropriate, or because the offer is not of sufficient quality. In that case, given their status as young unemployed, they will be picked up by the scheme and included in a new 'loop'. When individuals do not progress as envisaged, Member States need to look into the probable causes. On that basis, the YG will be further refined and its impact reinforced.

Box 3.2 An example of a promising EU-funded project aiming at mainstreaming a new structural approach/Piloting the Youth Guarantee in Ireland

In the Ballymun pilot Youth Guarantee (BYG) all key stakeholders – public employment services, education and training providers, local development and youth organisations, employer and trade union representatives, led by the Department of Social Protection – have come together to design and implement an activation approach tailored to meet the needs of young unemployed people in one of Ireland's most severely disadvantaged areas.

The pilot represents a more intensive systematic engagement with young unemployed people and includes elements of assessment, guidance, education and training with an emphasis on providing a work placement opportunity as a route to permanent employment. Each participant will receive a guarantee of access to career guidance leading to identification of an individual career plan with follow-through to training, education, work experience or full-time employment. Depending on the person's individual needs, steps in that career plan might include personal assessment, job search assistance, skills training, work exposure and experience, but the clear objective in all cases will be to lead the young person on a pathway to employment or further education or training.

There is a particular focus on involving and building links with employers. This is not just in order to to maximise take-up of existing incentives and support, but also to generate new innovative work placement and experience opportunities, such as job shadowing, job sampling and blended education, training and work experience options which are also tailored to the needs of the labour market.

The pilot is operational from January until September 2014. The service is offered to all newly unemployed young people in the Ballymun area within a very short time of registration, and, on a phased basis, to other young unemployed or inactive people. The approach is designed to ensure that lessons from the local pilot experience will help authorities to develop and roll out the scheme nationally. The project received an EU grant of EUR 250 000 towards the total project cost of EUR 300 000.

Box 3.3 Apprenticeship: a key element for smooth school-to-work transitions

Quality apprenticeships and, more broadly, effective vocational education and training (VET) systems have been a major factor in ensuring good outcomes in terms of youth employment. A strong work-based learning component is particularly vital for facilitating young persons' transition from education to work. In July 2013, at the Commission's initiative, the European Alliance for Apprenticeships was launched. It aims at enhancing the quality and supply of apprenticeships across the EU, including by changing the way that people look at this type of learning. EU funding and technical expertise is at hand to help Member States improve their systems. To date, 21 Member States have made concrete commitments to increase the quantity, quality and supply of apprenticeships. Furthermore, 31 non-governmental actors (businesses, chambers of commerce, VET providers and organisations) have pledged to take prompt and concrete action. For example, with the project 'Quality Internships and Apprenticeships', Microsoft and the European Youth Forum will aim to develop a learning network of companies focused on quality school-to-work transition. The Joint European VET Networks will promote and strengthen partnerships between business and VET institutions working together to ensure high-quality programmes.

Box 3.4 Traineeships: genuine stepping stones towards securing a job

The Quality Framework for Traineeships was launched in March 2014. It was first proposed by the Commission in 2012, with a view to boosting the provision of high-quality traineeship that genuinely enhances a young person's employability, as well as smoothing the often tricky transition from education to employment. The Quality Framework for Traineeships contains guidelines on ensuring minimum quality standards for learning content and working conditions, including transparency on remuneration and prospects for staying on after concluding the traineeship. Prospective trainees will therefore be better placed to identify worthwhile offers. They will also find it easier to exercise their right to mobility on the European labour market by trying out a transnational traineeship. Moreover, this guidance will help interested employers to develop good practices for recruiting and hosting trainees.

CHAPTER 4

Addressing employment and social imbalances in the EU/EMU

Improving the governance of the Economic and Monetary Union

The long economic crisis has led to a great **divergence** in the economic and social situations across EU Member States, particularly in the Euro Area. This divergence (in economic growth, employment and many other key indicators of well-being) has become in itself a key challenge, since it holds back Europe's sustainable economic recovery.

Growing disparities between Member States are particularly worrying in the context of the Euro Area, since those using the euro can no longer call on tailor-made monetary policies to support an economic recovery. If there is a major difference in the economic performance and social situation of Euro Area Member States, the single currency and the monetary policy pursued by the European Central Bank will be too restrictive for some and too loose for others. This situation would reduce the economic benefits that the euro has brought to Member States using this currency.

Moreover, if too many troubled Member States try to regain their cost-competitiveness by reducing labour costs (a process also known as 'internal devaluation'), they might trigger an overall fall in demand and output in the European economy. This would also result in rising unemployment and falling living standards.

Growing socio-economic divergence in the Euro Area has therefore fuelled a debate on ways to complete Europe's Economic and Monetary Union (EMU), and on strengthening its social dimension, in particular. The effects of the long economic crisis have underlined that employment and social policies in Member States are a matter of common concern, especially in the Euro Area. Action or inaction by one Member State, as well as ineffective policies or institutions, can have a knock-on effect on other Member States. For example, they may find there is less demand for their exports and a loss of skills due to prolonged unemployment. High unemployment, declining household demand and income inequalities also adversely affect debt-to-GDP ratios, as well as the future employability and productivity of today's unemployed. This harms competitiveness and growth potential in the EMU as a whole. European integration is also likely to lose legitimacy and popular support if seen solely as an economic and budgetary project that damages Europe's social model and welfare systems. This would result in political instability at the national and EU levels, where socio-economic divergence risks creating disunity.

To avoid serious employment or social imbalances, a deep and genuine EMU must be given the tools necessary for preventive and remedial action. Closer coordination of employment and social policy is necessary to strengthen monetary union. And in the longer term, an EMU-level automatic fiscal stabiliser could provide fiscal stimulus to monetary union countries experiencing a cyclical downturn and sharp increase in short-term unemployment.

Strengthening the EMU's social dimension

In the mid-2000s, the currency union indirectly contributed to convergence in unemployment rates across its Member States. This was partly because the launch of the currency union led to weak financial supervision and lower risk perception, which in turn resulted in large capital flows into receiving countries with lower competitive performance. Yet the financial crisis that erupted in 2008 has unleashed divergence in unemployment rates on a much larger scale and the gap between the unemployment rates of different countries of the Euro Area has since then been growing at an alarming pace. This is partly due to the slow process of deleveraging (paying off or reducing an amount of borrowed capital) and the uncertainty around the recovery prospects of crisis-hit countries, which also led to high borrowing costs in those countries.

Given these developments, in December 2012 the European Council (EU Heads of State and Governments) called for a strengthening of the social dimension of the Economic and Monetary Union (EMU). In June 2013, the Council highlighted the importance of better monitoring of the social and labour market situation in the EMU and of ensuring better coordination of employment and social policies. It also stressed the role of the social partners and social dialogue, including at national level.

In the Euro Area, countries cannot devaluate their currency to boost productivity and competitiveness, even when faced with an asymmetric economic shock (i.e. a shock that differs from country to country) or with the effects of a sustained loss of competitiveness. Those countries are also much less able to use traditional monetary and fiscal policy levers. In order for the EMU to function well, their economies and labour markets should therefore be sufficiently flexible to allow for adjustments. To support such adjustments, solidarity mechanisms must be in place and investments must be made in people (e.g. childcare, education, implementing social protection reforms, enhancing active labour market policies). These can boost productivity and ensure that the labour markets and society at large do not exclude people or create poverty.

Against this background, on 2 October 2013 the Commission drafted a Communication on strengthening the social dimension of the Economic and Monetary Union. This focused on three areas: reinforced surveillance of employment and social developments and strengthened policy coordination within the European Semester; enhanced solidarity and action in support of employment and labour mobility; and strengthened social dialogue.

Establishing the scoreboard of key employment and social indicators

The EU's system of policy coordination in the economic and employment fields – developed before the introduction of the euro and strengthened during the economic crisis in the early 2010s – has been only partially effective in monitoring the extent of employment and social divergences. Due to the growing extent of employment and social problems during the long economic crisis, plus the growing divergence between Member States, it has become clear that economic governance must better reflect social and employment challenges. This would make it easier to anticipate major problems much earlier and collectively ensure that such problems are effectively tackled.

The Commission therefore proposed that a new scoreboard of key employment and social indicators should be integrated into the **European Semester**. The scoreboard would enable flagging up at an early stage of major adverse employment and social developments that could affect the EMU's stability. These include developments that severely undermine employment, social cohesion and human capital, and possibly lead to negative effects beyond national borders. Once identified and clearly visible at the European level, problems of this kind could be more easily addressed through economic, employment and social policies. The scoreboard therefore helps in setting priorities for labour market and social policies in the EMU and individual Member States.

Box 4.1 Scoreboard of key employment and social indicators

The scoreboard includes a limited number of key indicators focusing on employment and social trends that can severely undermine employment, social cohesion and human capital. It is included in the annual Joint Employment Report published each autumn with the Annual Growth Survey.

The scoreboard has five headline indicators:

- unemployment rate;
- NEET rate (young people not in education, employment or training) and the youth unemployment rate;
- household disposable income;
- at-risk-of-poverty rate of working age population;
- income inequalities (the S80/S20 ratio, which shows how much higher income the most well-off fifth of the population receives compared to the 20% least well-off).

High unemployment in general as well as youth unemployment affect not only national growth prospects, but also other countries' prospects, especially due to trade linkages and the negative impacts on people's future employability and productivity. Poverty in working age indicates that labour markets are not working well, as shown by segmentation and a polarisation between job-rich and job-poor households, as well as weaknesses in social protection systems.

High and increasing levels of inequalities show that the economic situation of the majority of the population is deteriorating, with effects on the low- and middle-income population, and a higher concentration of income and wealth in the most affluent sections of society. Income inequalities affect internal demand and economic performance as a whole, since they reduce opportunities for many people.

Monitoring household income developments is important, because this income reflects the capacity of individuals to spend (and save) and to support aggregate demand in the country and beyond borders through trade. Household incomes mirror developments in labour market incomes. They also reflect the effectiveness of tax and benefits systems to compensate for declines in market incomes during negative economic shocks.

Table 4.1 Scoreboard of key employment and social indicators with EU averages as reference points as adopted in the 2014 Joint Employment Report*

	Unemployment rate (15-74)			Youth unemployment (15-24): Youth UR			Youth unemployment (15-24): NEETs			Real growth in gross household disposable income		At-risk-of-poverty rate (18-64)			Inequalities - S80/S20		
	Y-Y change (Semester1/2012 -S1/2013)	Distance from EU average	Y-Y for MS to Y-Y for EU	Y-Y change (Semester1/2012 -S1/2013)	Distance from EU average	Y-Y for MS to Y-Y for EU	Y-Y change (2011-2012)	Distance from EU average	Y-Y for MS to Y-Y for EU	Y-Y change (2011-2012)	Y-Y for MS to Y-Y for EU	Y-Y change (2011-2012)	Distance from EU average	Y-Y for MS to Y-Y for EU	Y-Y change (2011-2012	Distance from EU average	Y-Y for MS to Y-Y for EU
EU-27	0.6	0.0	0.0	0.6	0.0	0.0	0.3	0.0	0.0	-1.2	0.0	0.8	0.0	0.0	0.1	0.0	0.0
EA-17	0.9	1.2	0.4	1.4	0.6	0.7	0.6	0.0	0.3	-1.8	-0.5	0.8	0.2	0.0	0.1	0.0	0.0
BE	1.0	-2.5	0.4	3.3	0.0	2.6	0.5	-0.9	0.2	1.3	2.5	0.8	-3.1	0.0	0.0	-1.1	0.0
BG	0.8	2.0	0.2	-0.1	5.1	-0.8	-0.3	8.3	-0.6	:	:	-0.8	0.6	-1.6	-0.4	1.0	-0.5
CZ	0.3	-3.8	-0.4	-0.6	-4.4	-1.3	0.6	-4.3	0.3	-1.4	-0.2	0.2	-7.5	-0.6	0.0	-1.6	-0.1
DK	-0.8	-4.0	-1.4	-2.3	-10.9	-3.0	0.3	-6.6	0.0	0.2:	0.3:	0.8	-2.9	0.0	0.1	-0.6	0.0
DE	-0.2	-5.6	-0.8	-0.3	-15.5	-0.9	0.2	-5.5	-0.1	0.8	2.0	0.2	-0.2	-0.6	-0.2	-0.8	-0.3
EE	-1.7	-2.2	-2.3	-4.0	-5.3	-4.7	0.7	-0.7	0.4	-4.3	-3.0	-0.3	0.9	-1.1	0.1	0.3	0.0
IE	-1.2	2.9	-1.8	-3.2	4.9	-3.8	-0.1	5.5	-0.4	-1.7	-0.5	0.5	-0.9	-0.3	-0.1	-0.4	-0.1
EL	4.1	16.1	3.5	6.1	36.1	5.5	2.9	7.1	2.6	-8.6	-7.4	3.8	7.0	3.0	0.6	1.5	0.5
ES	2.2	15.5	1.6	3.9	32.2	3.3	0.3	5.6	0.0	-5.5	-4.2	1.1	5.1	0.3	0.1	2.1	0.0
FR	0.8	-0.1	0.2	2.1	2.4	1.4	0.2	-1.0	-0.1	-0.9	0.3	0.2	-3.1	-0.6	-0.1	-0.6	-0.2
HR	1.9	6.1	1.3	12.2	28.1	11.5	1	3.5	0.7	:	:	-0.8	1.2	-1.6	0.0	0.3	-0.1
IT	1.7	1.1	1.1	4.5	15.6	3.8	1.3	7.9	1.0	-4.3	-3.1	0.6	2.3	-0.2	0.0	0.5	-0.1
CY	4.3	4.3	3.7	11.2	13.8	10.5	1.4	2.8	1.1	-10.6	-9.4	0.7	-4.6	-0.1	0.4	-0.4	0.3
LV	-3.6	1.1	-4.2	-8.2	-2.2	-8.9	-1.1	1.7	-1.4	4.3	5.5	-0.8	2.6	-1.6	-0.1	1.4	-0.2
LT	-1.5	1.4	-2.1	-5.5	-0.6	-6.1	-0.4	-2.1	-0.7	0.7	1.9	-2.3	1.1	-3.1	-0.5	0.2	-0.6
LU	0.6	-5.3	0.0	0.2	-4.7	-0.4	1.2	-7.3	0.9	:	:	1.4	-2.3	0.6	0.1	-1.0	0.0
HU	-0.4	-0.3	-1.0	0.5	4.9	-0.1	1.4	1.5	1.1	-4.3	-3.1	0.0	-3.2	-0.8	0.1	-1.1	0.0
MT	0.1	-4.4	-0.5	-0.5	-9.5	-1.2	0.5	-2.1	0.2	:	:	-0.9	-4.6	-1.7	-0.2	-1.2	-0.3
NL	1.4	-4.5	0.8	1.4	-12.7	0.7	0.5	-8.9	0.2	-2.5	-1.2	-0.4	-6.7	-1.2	-0.2	-1.5	-0.3
AT	0.6	-6.1	0.0	0.0	-14.6	-0.6	-0.4	-6.7	-0.7	1.2	2.4	0.3	-5.0	-0.5	0.1	-1.2	0.1
PL	0.6	-0.4	0.0	1.1	3.8	0.4	0.2	-1.4	-0.1	-0.1	1.1	-0.6	-0.3	-1.4	-0.1	-0.2	-0.2
PT	2.1	6.4	1.5	3.6	16.6	3.0	1.4	0.9	1.1	-2.8	-1.6	0.7	0.1	-0.1	0.1	0.7	0.0
RO	0.1	-3.7	-0.5	-0.3	-0.1	-0.9	-0.6	3.6	-0.9	-2.7:	-2.6:	0.0	4.2	-0.8	0.1	1.2	0.0
SI	2.3	-0.3	1.7	5.3	0.1	4.6	2.2	-3.9	1.9	-4.7	-3.5	0.5	-4.6	-0.3	-0.1	-1.7	-0.2
SK	0.4	3.3	-0.2	0.4	10.5	-0.3	0	0.6	-0.3	-2.0	-0.7	-0.1	-4.5	-0.9	-0.1	-1.4	-0.2
FI	0.4	-2.8	-0.2	1.1	-3.3	0.4	0.2	-4.6	-0.1	0.4	1.7	-0.4	-4.4	-1.2	0.0	-1.4	-0.1
SE	0.3	-2.9	-0.4	1.1	0.8	0.4	0.3	-5.4	0.0	3.8	5.1	0.3	-4.0	-0.5	0.1	-1.4	0.0
UK	-0.3	-3.2	-0.9	-0.6	-2.5	-1.3	-0.3	0.8	-0.6	1.6	2.8	-0.8	-1.9	-1.6	-0.1	0.3	-0.1

* For each indicator (except for real growth in GHDI as it is represented as a monetary value) the three columns refer to i) year on year change in absolute terms; ii) the difference from the EU (or Euro Area) average rates in the same year iii) the year on year change for the country relative to the year on year change at the EU or EA levels (indicating whether the country's situation is deteriorating/improving faster than the rest of the EU/EA reflecting the dynamics of socio-economic divergence/convergence). S1 stands for 1st semester and is based on quarterly data. The latest data for DK and RO for real growth in GHDI available for 2010-11. The latest data for BE, IE, AT, and UK for AROP and S80/S20 available for 2010-11.

Worrying divergences in employment and social developments

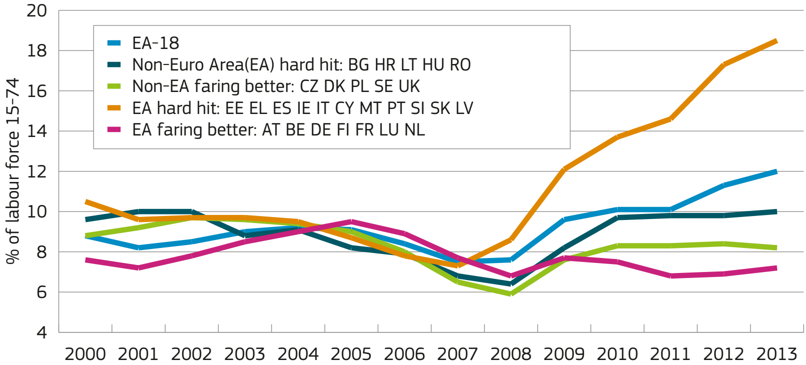
Published in November 2013, the first edition of the scoreboard shows persistent and rising divergence in employment and social developments across Member States, particularly in the Euro Area. Prior to the crisis, most social and employment performance indicators were converging across the EU. But the gap has been widening since 2008.

This divergence is clearly visible in the unemployment rate of young people and in the percentage of young people not in employment, education or training (NEET).

Greater divergence within the Euro Area than outside is also apparent in household income and inequalities. Poverty rates have also grown in most Southern European Member States of the Euro Area.

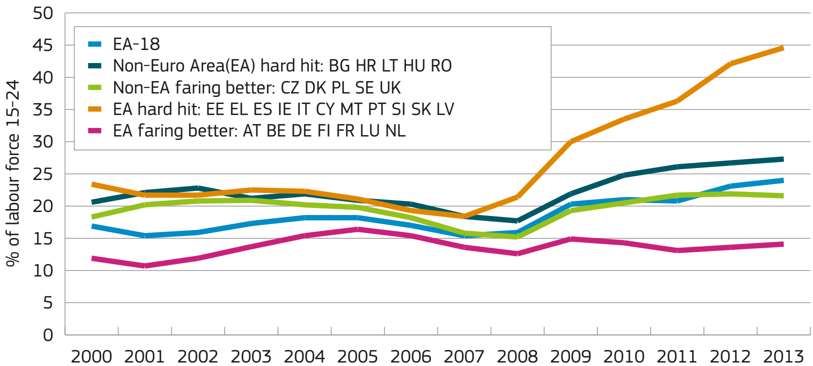
In many countries, the crisis has intensified the long-term trends of wage polarisation and labour market segmentation. These trends, together with less redistributive tax and benefit systems, have fuelled inequalities. Significant increases in inequalities seen in the countries most affected by the jobs crisis also explain high levels of unemployment, with the largest increases at the bottom of the labour market, and the impact of fiscal consolidation.

Chart 4.1 Unemployment rate



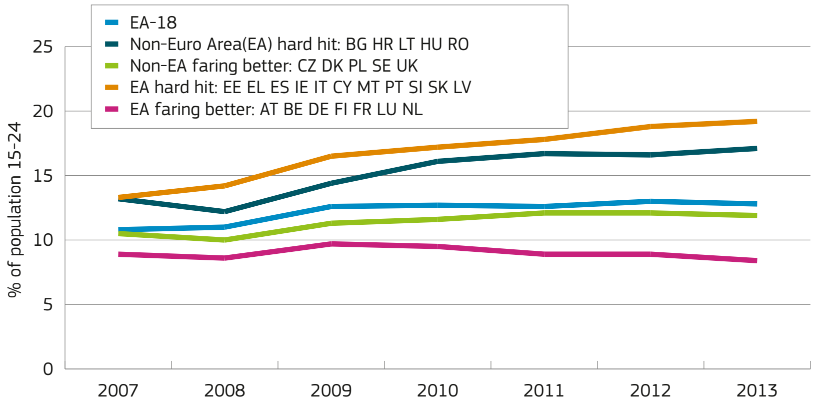
Source: Eurostat, EU-LFS; DG EMPL calculations, weighted averages

Chart 4.2 Youth unemployment rates



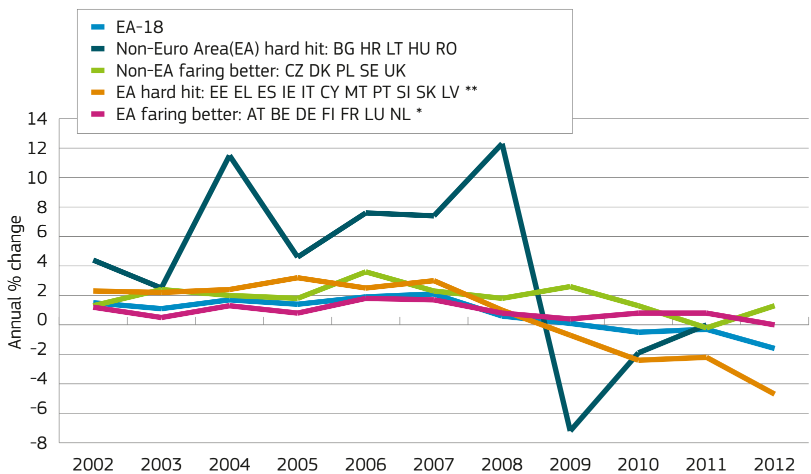
Source: Eurostat, EU-LFS; DG EMPL calculations, weighted averages

Chart 4.3 NEET rates 15-24



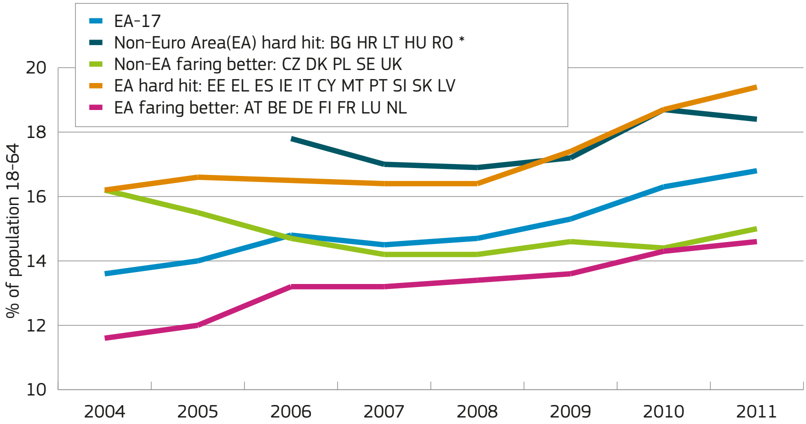
Source: Eurostat, EU-LFS; DG EMPL calculations, weighted averages

Chart 4.4 Gross Disposable Household Income, annual % change



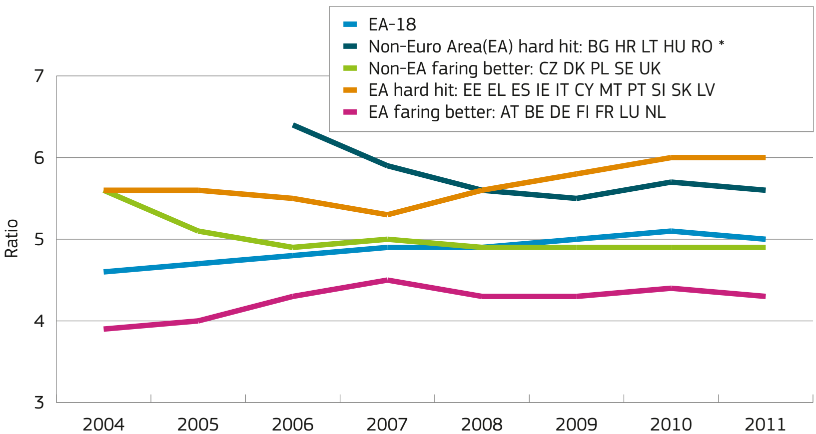
Source: Eurostat, National Accounts; DG EMPL calculations, weighted averages; *LU excluded, **MT excluded

Chart 4.5 At-risk-of-poverty rates, % of population 18-64



Source: Eurostat, EU-SILC; years refer to income years; DG EMPL calculations, weighted averages; *no data for 2004-2005 (because no data for RO)

Chart 4.6 Inequality (S80/S20)



Source: Eurostat, EU-SILC; years refer to income years; DG EMPL calculations, weighted averages; *no data for 2004-2005

Box 4.2 Scoreboard and Europe 2020 targets

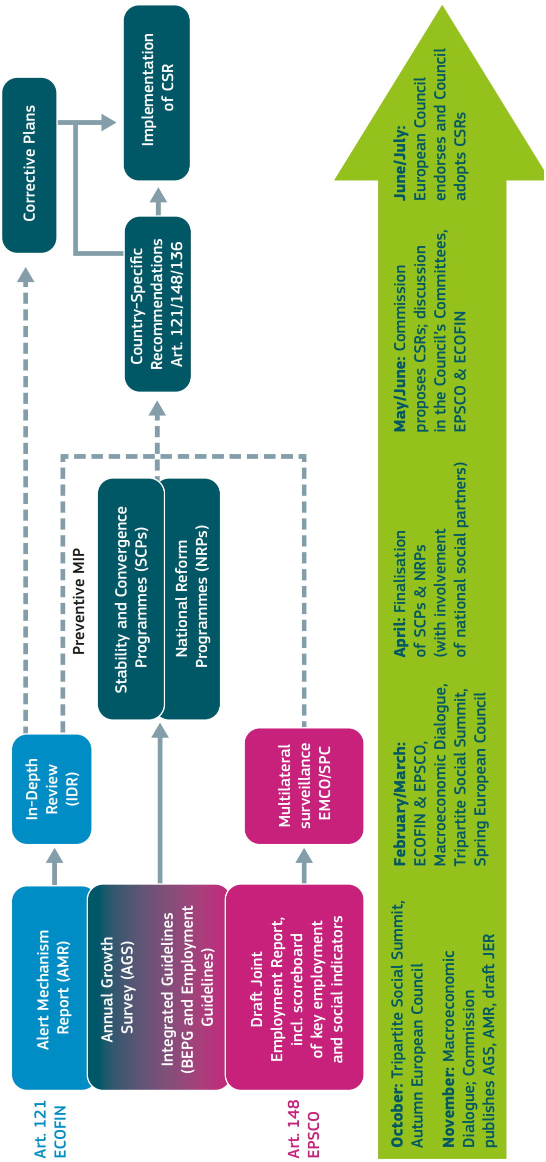
The scoreboard's indicators do not replace Europe 2020 headline targets, but rather complement them. On the one hand, the Europe 2020 targets provide for a longer-term vision and the direction that the EU should heading. On the other hand, by helping to detect key employment and social challenges in the EU and to ensure a timely policy response, the scoreboard also helps with meeting the Europe 2020 targets. In other words, the scoreboard is meant to diagnose major employment and social trends that are relevant for the EU and the EMU because of the problem of divergences and cross border effects.

The scoreboard of key employment and social indicators in the 2014 European Semester

Using the scoreboard under the European Semester enables earlier identification of major employment and social imbalances as well as divergences between Member States. The scoreboard was applied in the European Semester for the first time in 2014. The Commission included its analysis in the 2014 draft Joint Employment Report, which was then adopted by the Council in March 2014. The Commission drew on the scoreboard's results when drafting the 2014 Country-Specific Recommendations (CSRs) and Staff Working Documents, with the aim of better tackling challenges and improving policy guidance.

The scoreboard offers a first 'layer' for detecting key employment and social challenges. However, the formulation of CSRs is also based on a broad assessment of the existing comprehensive employment social monitoring instruments (i.e. Employment Performance and Social Protection Performance Monitors) and the policy responses by Member States. Several of the 2014 CSRs address challenges identified by the scoreboard, notably high youth unemployment and inactivity, poverty and rising income inequalities.

Chart 4.6 EU economic, employment and social governance cycle



Stronger coordination of employment and social policies and greater involvement of social partners

The Communication on strengthening the social dimension of the EMU proposed closer coordination of employment and social policies, including through standards or policy benchmarks that aim to facilitate job-rich growth and support social inclusion. Such social standards would play a central role in supporting the integration of the labour market as well as socio-economic convergence.

As with the Youth Guarantee, standards developed at EU level (based on best performance and taking the form of well-defined policy guidelines) can help to focus the efforts of governments and stakeholders when tackling challenges facing the entire EU. As proposed by the Commission in its communication, the scope of stronger policy coordination could include such areas as the quality of active labour market policies, reforms tackling labour market segmentation, and the development of human capital.

The existing policy coordination framework should also be strengthened by improving *ex ante* discussion and coordination of major policy reform projects, as provided by the Treaty on Stability, Coordination and Governance (2012).

For public employment services, enhanced cooperation has been stepped up through the creation of a new Network of Public Employment Services.

Furthermore, the Communication proposed that the existing mechanisms for social dialogue and social partner consultations should be more effectively used throughout the European Semester, at both operational and political level. This proposal also invited Member States to get their social partners more involved in the discussion, design and implementation of labour market and social policy reforms. Better use could also be made of existing groups for EU-level social dialogue, such as the Tripartite Social Summit and the Macro-Economic Dialogue, in order to give social partners a greater say in formulating economic policies for the EMU as a whole (see also Chapter 6).

Developing options for automatic fiscal stabilisers for the EMU

Automatic stabilisers are those parts of the public sector in an economy that automatically help balance the business cycle, especially in downturns, by adjusting government revenues and expenditures. For example, in downturns, public revenues decrease (lower tax income) while public expenditure increases, especially unemployment benefits and other types of social protection expenditure. A situation like this helps to sustain aggregate demand in times when it is most needed.

Until around 2010, automatic stabilisers played an important role in cushioning the effects of the economic and financial crisis. That said, the effectiveness of these stabilisers has differed across countries. Generally speaking, Member States with well-functioning social security systems (sufficient benefits and high coverage of the population) have weathered the crisis much better than countries with weakly developed social security systems. Yet the effectiveness of national automatic stabilisers has weakened, with the economic crisis dragging on and several Member States coming to be seen by financial markets as potentially insolvent.

By the early 2010s, cuts in public expenditure and increases in tax rates had helped to stabilise public finances, but also dampened domestic demand and consequently economic recovery. Up to today, mid-2014, growth in Europe remains weak and uneven, particularly in comparison with the US or Japan, both of which have pursued more expansionary fiscal policies in recent years. Given that GDP growth rates tend to be lower than sovereign debt interest rates, the debt-to-GDP ratios of most EU Member States have actually risen over the past years. Moreover, as long-term unemployment has gradually increased, so has the share of people losing (part of their) benefit entitlements. This has reduced the stabilising impact of such benefits.

The role of automatic fiscal stabilisers must be strengthened, in order to mitigate the economic and social impacts of future financial and economic crises in the EMU. Such strengthening will be most important in countries where automatic stabilisation is currently rather weak. This means improving the effectiveness of social security spending, as well as ensuring that national governments have sufficient budgetary margin for manoeuvre when an economic downturn occurs. Given the relatively high levels of national sovereign debt in Europe for the foreseeable future, the way forward (in a deep and genuine EMU) is to partially share cyclical risks to national budgets. This could be done for instance through a partial pooling of short-term unemployment insurance expenditure.

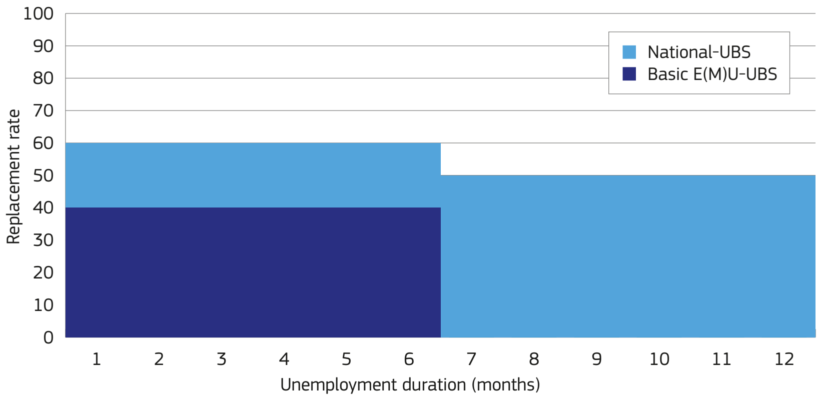
Strengthening automatic stabilisation in the EMU is necessary nationally and EU-wide, especially since very negative economic and social impacts due to weak automatic stabilisation in one country can spill over to other Member States. The risk of 'contagion' can be reduced by economic policy coordination between countries and through creation of the banking union (notably a common mechanism for restructuring unviable banks in the Euro Area, thus reducing the need for bank rescues financed by national budgets). Complementing these recent achievements, an EMU-level fiscal capacity would already help to cushion the impact of economic downturns in the very short term. This would stop cyclical developments from triggering longer term economic crisis and divergence within the monetary union.

The creation of a fiscal capacity for the EMU was foreseen in the Blueprint for a deep and genuine EMU, which the European Commission published in November 2012. The subsequent report of the Presidents of the European Council, the Commission, the European Central Bank and the Eurogroup said that fiscal capacity like this would help the EMU to absorb economic shocks. Yet this is not a new idea. Back in 1977, the MacDougall report said that a monetary union between EEC Member States would need a shared budget to the tune of 5 or 7 % of Community GDP, if that union was to function well.

One way to create an EMU-level automatic fiscal stabiliser is to launch a scheme where fiscal stimulus is given to countries of the monetary union, based on developments in their short-term unemployment. Using unemployment as the key indicator is useful, since it closely follows developments in the economic cycle, is easily understandable, and can be measured easy and quickly.

One solution could be to define basic European unemployment insurance, which would replace the corresponding part of national schemes for some of the unemployment spell. This is illustrated in the chart below. The levels for the contribution and the benefit should be a relatively low common denominator between the rules of the various national schemes. Member States could then top up these schemes, according to national preferences and existing schemes.

Chart 4.7 Example of basic European unemployment insurance and a more generous national scheme topping it up



A scheme of this kind should focus on cyclical unemployment caused by a drop in aggregate demand. It could largely ignore structural unemployment caused by skills mismatches, less efficient labour market institutions and so on.

To counteract a cyclical downturn, an automatic fiscal stabiliser configured as basic European unemployment insurance could prove useful from a macroeconomic viewpoint. It would have a few basic parameters agreed in advance, thus making its operation predictable and calculable.

These parameters could be adjusted in response to actual experience. However, governments, citizens and financial markets could be confident that any EMU country facing a cyclical downturn would receive a limited fiscal transfer to support the cost of short-term unemployment.

CHAPTER 5

Towards a genuine European labour market

One of the European Union's greatest achievements is the Single Market: from 1998 to 2008, it generated an extra 2.77 million jobs in the EU, and an additional 2.13 % in GDP. A recent study concluded that European integration, which continues today, increased the economic growth of participating national economies between 1992 and 2012 (1).

Free movement of workers is one of the cornerstones of the Single Market, without which freedom of establishment and freedom to provide services could not be exercised in full. Promoting intra-EU labour mobility therefore contributes to realising the Single Market's potential.

Most national labour markets feature high levels of unemployment in some areas, alongside bottleneck vacancies in fast-growing regions or sectors. Labour markets are dynamic if employment policies facilitate the transitions that enhance productivity and job quality, if the workforce has sufficient skills, and if people are mobile enough to respond to geographic trends in job vacancies. So if the EU labour force is to be better equipped for change and to provide job opportunities under the Europe 2020 Strategy, the EU will need to focus on labour reform and on developing human capital in general, as well as on actively promoting labour mobility.

Promoting labour mobility makes economic sense, as it helps to match jobseekers with available vacancies; it also promotes dissemination of knowledge and innovation across Europe. A genuine European labour market, based on good conditions for labour mobility across countries, would improve the EU's growth potential. Companies could then meet their human resources needs more efficiently and offer individuals more opportunities to build a career.

The **right to move freely as a worker** came into effect between six Member States on 1 January 1968. Today, this right covers the labour markets of 28 Member States (with transitional restrictions still applied by some countries to workers from Croatia). The right is intrinsically linked to a fundamental Treaty principle: the prohibition of any discrimination on the basis of nationality. EU nationals have the right to look for work and take up employment in another Member State; to receive assistance from the employment services in the host state when looking for a job; to be treated equally with regard to conditions of employment and work and with regard to social and tax advantages; and EU workers have a right of residence for themselves and their family members.

(1) Bertelmanns Stiftung, 20 years of the European Single Market: growth effects of EU integration, Policy Brief No. 2014/02.

To support the exercise of the right to move freely, there are EU rules on **social security coordination** to guarantee that workers will not lose their social security rights when moving to another Member State. This coordination relies on an effective exchange of information between national administrations. The Commission is setting up an Electronic Exchange of Social Security Information (EESSI) system to establish standardised electronic exchanges of information, improve verification and collection of data, and speed up management of claims, calculations and payments. The platform should be fully operational in 2018.

In the 2012 Employment Package, the Commission set out its vision of a ***genuine European labour market***, where easy labour mobility contributes to a job-rich recovery. Related legislative initiatives have since then resulted in new EU measures on labour mobility:

1. In 2013, EU rules to facilitate the process of **recognition of qualifications** were reinforced. Recognition is a necessary condition to work in another Member State for certain professions (such as doctors, lawyers or architects). The amended rules will make it easier for professionals to move around the EU.

2. In 2014, Council and Parliament adopted the Directive on **improving the acquisition and preservation of supplementary pension rights** for mobile workers (also known as the 'portability' directive). This legislation ensures that the combined length of waiting periods (i.e. the time before a worker is admitted into an occupational pension scheme) and vesting periods (i.e. the duration of scheme membership after which the rights cannot be forfeited) does not exceed three years. Furthermore, the Directive stipulates that the value of acquired pension rights must be preserved after the worker has left the scheme, e.g. indexed against inflation. This will allow mobile workers to more easily build up and retain their supplementary pension rights when moving from one Member State to another.

3. In 2014, Council and Parliament adopted the Directive to **facilitate the exercise of rights conferred on workers in the context of the free movement of workers**. The measure will make it easier for people working or looking for a job in another country to exercise their rights in practice. Member States must ensure, among other things, that one or more bodies at national level has responsibility for advising and providing support and assistance to EU migrant workers, including jobseekers, with the enforcement of their rights.

In addition, Council and Parliament also adopted in 2014 the **Posting of Workers Enforcement Directive**. Both the new Enforcement Directive and the 1996 Posting of Workers Directive relate to the freedom to provide **services** transnationally and do not concern the free movement of workers as such[2]. However, posting of workers is an important aspect of the European labour market. Because of the transnational provision of services, companies that provide services in another Member State may need to post their employees temporarily to work in an EU country other than the one where they are usually employed. The Posting of Workers Directive aims to ensure that transnational service provision takes place in a fair competitive environment and respects workers' rights.

(2) For this reason they have a different legal basis than the other instruments referred to above.

To ensure the EU Single Market works better for workers and for business, the Enforcement Directive aims to increase the protection of posted workers by tackling abuses where workers are prevented from enjoying their full rights. Examples of this include pay or holidays (especially in the construction sector). The Directive also provides for better monitoring of the way in which rules on the posting of workers are applied. In particular, the Directive will benefit SMEs and micro-enterprises, thanks to risk–based inspections, more readily available legal information on Member States' requirements, and legal certainty on possible control measures introduced by the host Member State.

As a result of these achievements, the EU has made significant progress in removing barriers to intra-EU labour mobility and making it easier for workers to exercise their right to move freely.

Besides the above-mentioned initiatives to reduce barriers and facilitate the exercise of rights, the Commission is also actively strengthening certain tools and instruments. These enable jobseekers and employers to make mobility choices based on fair conditions and the necessary labour market information. These tools and instruments address the practical needs of citizens, jobseekers and employers. They aim to raise people's awareness of employment opportunities across the EU and ensure they have access to appropriate support services. This will encourage recruitment among EU countries.

Hosting over 1.4 million job vacancies and more than a million CVs online, **EURES**, the European Network of Employment Services, aims to help EU citizens make an informed choice about job opportunities in other Member States. The network is an integral part of public employment services across the EU. It is also committed to fair mobility, sharing information on living and working conditions and labour market trends in Member States. EURES member organisations provide free assistance to jobseekers looking for work in other Member States and help employers to fill their job vacancies through matching activities, including online job fairs.

The network includes around 1 000 EURES Advisers working on transnational and cross-border mobility issues. This human network is complemented by the EURES Job Mobility Portal (eures.europa.eu), which provides access to job vacancies, online CVs and labour market information.

Box 5.1 How does EURES work in practice?

Jobseekers interested in mobility can:

a. search on the EURES portal among job vacancies shared by the public employment services of 28 Member States, Norway, Iceland, Liechtenstein and Switzerland, and in some countries, by other sources;
b. create, publish and manage their CV's on its portal, making them available to employers that are registered on the portal and to EURES advisers helping employers to find suitable candidates;
c. contact directly EURES advisers for general advice on mobility; and
d. receive assistance from EURES advisers with the preparation of applications for jobs in other Member States.

In 2014, a new version of the EURES Portal was launched. This was the first step in a project to make the site a genuine one-stop-shop for all EU citizens looking for job matching, information and advice on intra-EU labour mobility. The new site makes it easier for jobseekers to use easy-to-select key words to describe their skills, learning and employment experiences in their CVs. It also helps employers to find the right CVs, regardless of the language used.

In 2012, the Commission adopted a **decision to modernise the functioning of the EURES network**. The decision encourages Member States to develop better matching and recruitment services and to work more closely together within the network. This should improve the capacity of EURES to adapt its services flexibly, meeting the needs of clients (job-seekers and employers) and the economic situation on labour markets.

To support this more results-based approach in the network, the Commission will finance **targeted mobility schemes**. These schemes will help to fill job vacancies in certain sectors, occupations, countries or group of countries or for particular groups of workers, using the EaSI Programme (2014-2020). They will build on **Your first EURES job**, an EU job mobility scheme that combines the offer of information, matching and recruitment services with EU financial incentives (i.e. lump sums for job interviews, job settlement in other Member States). Its objective is to help around 5 000 young people to find a job in another Member State in the period between 2012-15.

Using the EaSI Programme, specific **support structures for frontier workers in cross-border regions, the cross-border partnerships,** will also be integrated in EURES and further strengthened.

Faster transitions between jobs and technological change are changing the way that people look for a job. So the Commission proposed a **new EURES Regulation** in 2014 to exchange job vacancies and enable EURES to better respond to jobseekers' needs. The new rules would increase the number of job vacancies and CVs, facilitate automated matching using the **ESCO**(3) (European Skills, Competences and Occupations) multilingual classification, improve exchange of information on labour shortages and surpluses, and enhance access to mobility support services for both jobseekers and employers. The Council and the European Parliament are currently examining the proposal.

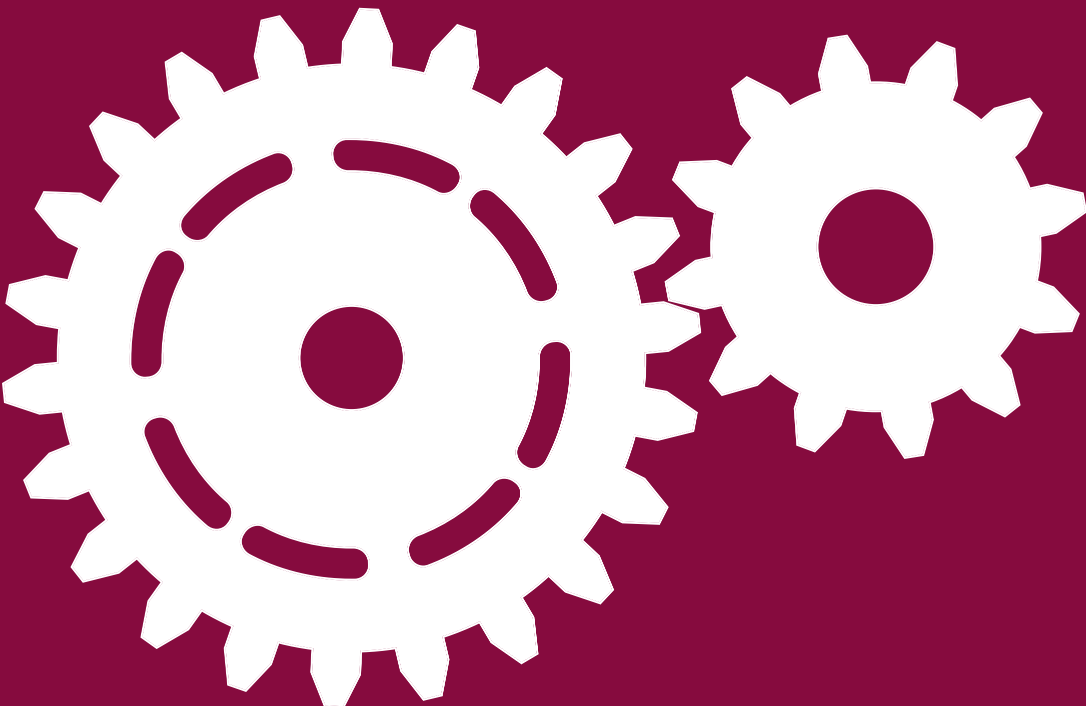
ESCO categorises and links skills and competences, qualifications and occupationsrelevant for the EU labour market, education and training in 22 European languages. Its standard terminology helps jobseekers and employers to better communicate across borders. The first version of ESCO is now on the EURES Portal and should be fully operational by 2017. ESCO is being developed in an open IT format that can be used by third parties' software. It is available free of charge to everyone.

The **EU Skills Panorama**(4) provides online one-stop access to information and intelligence on skills needs and trends across the EU. It identifies occupations and sectors where skills shortages exist or may exist in the future, thus providing an EU-wide overview of career opportunities and improving skills anticipation. The goal is to develop a web-based tool that can provide career and skills development advice to intermediaries such as employment services, jobseekers and citizens by 2016.

(3) https://ec.europa.eu/esco/

(4) www.euskillspanorama.eu

CHAPTER 6



Strengthening governance of employment policies

Better multilateral surveillance

Lessons learned from the recent economic, financial and sovereign debt crisis have led to successive reforms of the EU economic governance. For example, the EU now has new surveillance systems for budgetary and economic policies – including employment and social policies, as well as a new budgetary timeline for the Euro Area.

The new rules (introduced through the Six Pack, the Two Pack and the Treaty on Stability, Coordination and Governance) are implemented within the unique governance framework of the European Semester, as the new EU economic governance calendar is called. This integrated system ensures better coordination of national policies throughout the year, regular follow-up and monitoring as well as swifter preventive and corrective actions, including the possibility of sanctions for Euro Area Member States. This helps Member States to deliver on their budgetary and reform commitments. It is also an important step for strengthening the European economic governance and an important tool for stepping up **convergence of the socio-economic performance of the Member States**.

The European Semester is a new process for **multilateral surveillance** of major challenges, notably progress towards national Europe 2020 targets, reforms and imbalances amongst peers (Member States and the European Commission). The process culminates with the adoption of recommendations to individual Member States at the end of the European Semester (June)[(1)]. These Country-Specific Recommendations (CSRs) identify weaknesses in a country's labour market and employment performances, thus serving as a compass to set out ways to appropriately address those challenges. In short, the recommendations support Member States by providing concrete policy guidance on employment policy. Employment and labour market issues are a top priority in the CSRs. These issues encompass various policy fields such as active labour market policy, segmentation of the labour markets, undeclared work, taxation on labour, wage-setting mechanisms, and raising employment among vulnerable groups such as young people, older workers, people with a migrant background and women.

(1) Compliance can in some domains be further advanced through a set of gradual sanctions for non-compliant euro-area countries, including non-interest bearing deposits which could be converted to fines in the event of repeated non-compliance.

REGULATION (EU) No 1175/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 November 2011amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

[...] In order to ensure closer coordination of economic policies and sustained convergence of theeconomic performance of the Member States, the Council shall conduct multilateral surveillance as an integral part of the European Semester for economic policy coordination in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU).

[...] The European Semester shall include:

(a) the formulation, and the surveillance of the implementation, of the broad guidelines of the economic policies of the Member States and of the Union (broad economic policy guidelines) in accordance with Article 121(2) TFEU;
(b) the formulation, and the examination of the implementation, of the employment guidelines that must be taken into account by Member States in accordance with Article 148(2) TFEU (employment guidelines);
(c) the submission and assessment of Member States' stability or convergence programmes under this Regulation;
(d) the submission and assessment of Member States' national reform programmes supporting the Union's strategy for growth and jobs and established in line with the guidelines set out in point (a) and (b) and with the general guidance to Member States issued by the Commission and the European Council at the beginning of the annual cycle of surveillance;
(e) the surveillance to prevent and correct macroeconomic imbalances under Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (*).

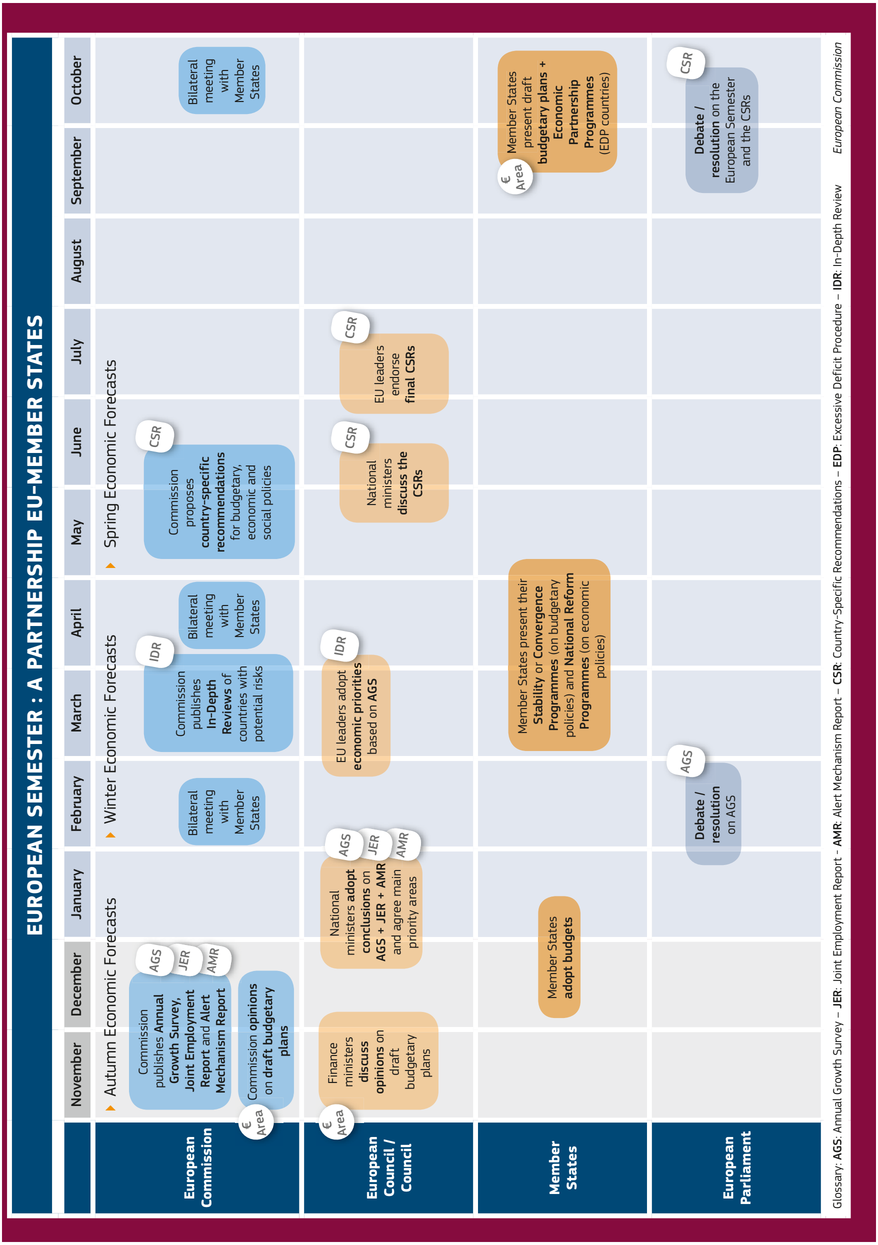
[...] In the course of the European Semester, in order to provide timely and integrated policy adviceon macrofiscal and macrostructural policy intentions, the Council shall, as a rule, following the assessment of these programmes on the basis of recommendations from the Commission, address guidance to the Member States making full use of the legal instruments provided under Articles 121 and 148 TFEU, and under this Regulation and Regulation (EU) No 1176/2011.

Member States shall take due account of the guidance addressed to them in the development of their economic, employment and budgetary policies before taking key decisions on their national budgets for the succeeding years. Progress shall be monitored by the Commission.

Failure by a Member State to act upon the guidance received may result in:
(a) further recommendations to take specific measures;
(b) a warning by the Commission under Article 121(4) TFEU;
(c) measures under this Regulation, Regulation (EC) No 1467/97 or Regulation (EU) No 1176/2011.

Implementation of the measures shall be subject to reinforced monitoring by the Commission and may include surveillance missions under Article -11 of this Regulation. [...]

Box 6.1 The European Semester



Since 2011, the individual efforts of all countries are coordinated and monitored through the European Semester - the yearly cycle of socio-economic governance which aims at reinforcing the coordination of key policy instruments covered by Title VIII (Economic policy) and Title IX (Employment) of the Treaty[2].

The European Semester starts when the Commission adopts its Annual Growth Survey, usually towards the end of the year, which sets out EU priorities for the coming year to boost growth and employment. Beside the Alert Mechanism Report which monitors economic imbalances in the EU, the Joint Employment Report (JER) adopted by the Commission and the Council represents substantial input to the AGS in providing in-depth assessment of the employment situation in the EU and the challenges ahead. The JER 2014 included, for the first time, the new scoreboard of key employment and social indicators which monitors major social imbalances.

In March, EU Heads of State and Government issue EU guidance for national policies on the basis of the Annual Growth Survey. The Spring meeting of the European Council – based on the Annual Growth Survey, takes stock of:

- the overall macroeconomic situation
- progress towards the Europe 2020 strategy headline targets
- progress under the various policy initiatives

It provides policy orientations covering fiscal and socio-economic policies, macroeconomic imbalances, structural reforms and growth enhancing areas, and it also advises on linkages between them. Employment Guidelines as well as Broad Economic Policy Guidelines are usually adopted in March

In April, Member States submit their plans for sound public finances (Stability or Convergence Programmes) as well as their plans for reforms and measures to make progress towards smart, sustainable and inclusive growth, in areas such as employment, research, innovation, energy and social inclusion (National Reform Programmes).

In May/June, the Commission assesses these programmes and provides country-specific recommendations as appropriate. The Council discusses these recommendations, and adopts them after endorsement by the European Council. Formal policy advice is thus given to Member States - and is politically agreed - before they start

(2) The European Semester for economic policy coordination has been codified by Regulation EU 1175/2011 of 16 November 2011.

to finalise their draft budgets for the following year.

Where recommendations are not acted on within the given time-frame, policy warnings can be issued. There is also an option for enforcement through incentives and sanctions (for Euro Area Member States) in the case of excessive macroeconomic and budgetary imbalances.

With the setting up of the scoreboard of key employment and social indicators, the Commission has taken a crucial step to strengthen the multilateral surveillance and thereby to support socio-economic convergence in the EMU. The scoreboard identifies employment and social imbalances at an early stage, and allows for better monitoring of employment and social developments. It is a decisive step in reinforcing the preventive arm of the European Semester and in strengthening the social dimension of the EMU. The scoreboard is fully integrated into the European Semester and leads to CSRs.

The governance of the employment and social policies has been considerably strengthened in recent years, notably through the reinforced role of the **Employment and Social Protection Committees** (respectively EMCO and SPC), which bring together the official representatives of the Member States. EMCO and SPC have built up their capabilities to monitor employment and social key challenges as well as the implementation of reforms in order to meet the CSRs. One of the key elements in the multilateral surveillance is the thematic reviews, which are done by EMCO and SPC. These reviews are *ex-post* (backward looking), which means they assess implementation over the year, but also contain a strong *ex ante* (forward looking) dimension when examining policy announcements before implementation.

Benchmarking and performance assessment – as provided through the existing tools, such as the Employment Performance Monitor – should be further expanded, and this also applies to the work of the Employment Committee. More dynamic and integrated labour markets could be created and further supported by moving towards **best practices, benchmarks and standards through stronger policy coordination**. There should be a focus on such areas as the quality of active labour market policies, reforms tackling labour market segmentation, and the development of human capital.

A greater role for social partners in the European economic governance

Evidence gathered over the past five decades of European integration has shown that EU-level social dialogue plays an essential role in advancing the European social model, delivering benefits for employers, workers and for the economy and society as a whole. Social dialogue has played a crucial role in building the single market. Today this dialogue has a key role in strengthening economic governance and will be an important element of the EMU's social dimension. It is also crucial to invest in strengthening social dialogue at both European and national level, so as to prevent the division of capital and labour, to enhance convergence and competitiveness in the EMU, and to boost the EU economy's growth and employment potential.

Table 6.1 Social partners participation in EU economic governance

<table>
<tr><th>SERVICE LEVEL</th><th>COUNCIL LEVEL</th><th>EUROPEAN COUNCIL LEVEL</th></tr>
<tr><td>Economic and Monetary policy: - Technical meetings to prepare the macroeconomic dialogue (EPC, EMCO, COM, ECB)</td><td>MACROECONOMIC DIALOGUE

Political meeting with ECB, EPC, Council (ECOFIN AND EPSCO, Troika format), COM (twice a year)</td><td rowspan="3">TRIPARTITE SUMMIT FOR GROWTH AND EMPLOYMENT

with European Council, Council (Troika format) and Commission (twice a year)</td></tr>
<tr><td>Employment and social policies:
- Periodic meetings with EMCO
- Periodic meetings with SPC</td><td>DIALOGUE ON EMPLOYMENT AND SOCIAL POLICIES

Informal political meeting with Council (EPSCO, Troika format), COM (twice a year)</td></tr>
<tr><td>Education and training policies</td><td>DIALOGUE ON EDUCATION

Informal political meeting with Council (EYCS), COM (twice a year)</td></tr>
</table>

- The role of the Tripartite Social Summit (TSS), set up in 2003, is recognised in the Lisbon Treaty. The TSS brings together the EU institutions and the EU social partners (trade unions and employers' organisations) at the highest level, i.e. at President level for the Commission, the Council and the European Council, and at President/Secretary General/Director General level for the EU social partners. The TSS meets twice a year ahead of the European Council (spring and autumn) and, in line with Article 152 in the Treaty on the Functioning of the European Union (TFEU), is the relevant body for high-level tripartite dialogue on growth and employment. The agenda of the TSS is discussed in the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council which precedes the European Council.

- The Macro-Economic Dialogue (MED) was set up in 1999, after the Cologne European Council, to promote an exchange of views on economic and monetary policies. The MED brings together the Council (ECOFIN and EPSCO) in a Troika format, with the Commission, the European Central Bank (ECB) and the EU social partners. It meets twice a year at ministerial level and is preceded by a preparatory technical meeting (attended by the chairs of the Economic Policy Committee, or EPC, and Employment Committee, or EMCO). The MED is informal, confidential and independent.
- Employment and social policies are regularly discussed in informal meetings between the EPSCO Council and the EU social partners. In addition, the Treaty (Art. 150 and 160 TFEU) provides for a consultation mechanism between EMCO and Social Protection Committee (SPC) and EU social partners' secretariats. These thematic dialogues on employment and on social policies also pave the way for subsequent debates within the TSS.
- Recent initiatives have been taken to establish effective involvement of social partners in the European Semester.
- Consultations of social partners on the main challenges in employment and social policies are organised ahead of the preparation of the Annual Growth Survey. These meetings involve limited delegations of EU social partner organisations.
- The Commission has also worked with EMCO to organise an exchange of views on wage developments, bringing together EU social partners' secretariats and all their national affiliates. Thanks to the setting up of a tripartite format for exchanging views on wage developments (on productivity, inflation and internal demand, unemployment and income inequalities), full respecting the autonomy of social partners as conferred by Art. 152 TFEU, there is now greater understanding and sharing of information about the multidimensional nature of wages. Likewise, this format helps with the transmission mechanisms of wage developments, which are particularly important in the Economic Monetary Union, where further convergence and coordination are needed.

Better coordination of PES – towards a more integrated European labour market

There is a strong tradition of voluntary cooperation between European Public Employment Services (PES), dating back to the establishment of an informal network in 1997. This network was created to promote cooperation, exchange and mutual learning between PES, so as to support delivery of employment policy through modernised services. In May 2014, an important milestone was achieved: a Decision on enhanced cooperation between PES formalised their previous informal cooperation, with the establishment of a new legally based PES Network.

The Decision recognises the key role and the function of PES in supporting labour market reform. The PES Network will focus on practical initiatives, including a new 'benchmarking' process (indicators) and mutual assistance programmes. This will enable evidence-based feedback on the success of policy implementation and will support further convergence of labour market performances. PES expertise will therefore be referred to the Employment Committee and may be used by the Council, Parliament, and Commission in further developing the European Employment Strategy as well as the social dimension of the EMU.

Box 6.2 The Europe 2020 mid-term review

Europe 2020 strategy, launched in 2010, is a front runner in advocating a growth model going beyond simply increasing GDP. The ambition was to come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion. It set out five interrelated headline targets for the EU to achieve by 2020 in the areas of employment, research and development (R&D), climate change and energy, education, and the fight against poverty and social exclusion. The targets are considered exemplary of the kind of dynamic change advocated in the strategy; they have been integrated within the Employment Guidelines and the Broad Economic Policy Guidelines (forming together the Integrated Guidelines). When adopting the Integrated Guidelines in 2010, the Council decision stipulated that, even though they must be drawn up each year, these guidelines should remain stable until 2014.

After four years, the Commission has proposed to initiate a review of the Europe 2020 strategy. On 5 March 2014, the Commission adopted a Communication "Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth"[(3)] drawing preliminary lessons from the first years of implementation of the strategy.

Progress towards the targets of the Europe 2020 strategy has been mixed. The EU is on course to meet or come close to its targets on education, climate and energy but progresses are uneven on employment, research and development or on poverty reduction. The crisis has also highlighted growing inequalities in the distribution of wealth and of income. These are

(3) http://ec.europa.eu/europe2020/pdf/europe2020stocktaking_en.pdf

challenges to be addressed in the review and subsequent adjustment of the strategy.

A critical step in designing a post-crisis employment and growth strategy for the EU is to understand clearly the causes and full impact of the crisis as well as to share a common diagnosis of where Europe stands. The economic governance of the EU, implemented annually through the European Semester, provides the framework for policy implementation and integrated surveillance. The European Semester is a powerful instrument for pursuing the post-crisis priorities that will be needed to meet the objectives of the Europe 2020 strategy.

At the same time, key EU policies such as the 2014-2020 multi-annual financial framework and its various programmes have been constructed to support the achievement of the Europe 2020 targets, providing a basis on which future policy can be built at both EU and national levels.

The path of divergence in employment and social performance should also be reversed trough a stronger and deepened social dimension of the European Monetary Union (EMU). The mid-term review of the Europe 2020 strategy should be consistent with the deepening of the EMU. It would requires further impetus towards a truly integrated labour market, labour and social standards to support better functioning labour market and the welfare state, as well as new solidarity mechanisms – financial support and ultimately a fiscal capacity to support Member States absorb economic shocks.

Voice from the European Parliament: Thomas Händel, MEP, Chair of the Committee on Employment and Social Affairs of the European Parliament


© European Union

Unemployment, poverty, a fragmented labour market – we are facing major challenges.

Being elected Chair of the European Parliamentary Committee on Employment and Social Affairs is for me both a great honour and a challenge. I have been working in various capacities for nearly 45 years to promote the interests of workers and vulnerable members of our society: as a professional trade unionist for 35 years, as the founder and partner in a training institute for works council representatives and trade unionists and as a judge at a Regional Labour Court. I am looking forward to working together closely with the various groups in the committee to tackle the tasks ahead of us.

We are facing historic challenges. Unemployment in Europe is at a record level, with almost a quarter of the people in Europe living in poverty or at risk of poverty. Fewer and fewer people in Europe have permanent jobs with wages above the poverty line. Precariousness is eating away at European societies like a cancer. This is unworthy of a modern society – let alone in the richest period in Europe's history.

This means we also need to talk about a European minimum wage level. Our most pressing task right now, however, is fighting youth unemployment. In some Member States, sixty per cent of young people do not have a job or a decent income. An entire generation is being robbed of its future. This is a disaster for a social Europe. The European Union has the obligation to keep its promises of prosperity and employment. Youth guarantees alone will not bring this about. A comprehensive investment programme for new jobs is needed. The re-industrialisation of Europe has a key role to play here. Initiatives by the Commission in this area will certainly be welcomed by the Employment Committee. What Europe needs is a "Marshall Plan" 2.0.

However, the citizens of the European Union expect qualitative as well as quantitative improvements, such as improved rules for health and safety in the workplace or better cooperation between the Member States to tackle situations of abuse, including undeclared work or the circumvention of laws designed to protect workers, for example when they are posted abroad. Simply having a job is not the only thing that matters: the conditions under which people are expected or able to do their work are important too. "Back to work – at any cost" is not the way forward for a social Europe. The European Union has a particular responsibility here. This comes explicitly within its powers.

If we want a single European labour market in the future, we must also renew our commitment to common, strong labour laws. We still find employment categories subject to different European laws. This further exacerbates the segmentation of the labour market. We need to discuss with the Council and Commission how we can reduce exceptions to the laws and make it more difficult to circumvent them. What we need is to finally introduce effective measures to fight social decline and put into practice the principle of "equal pay and equal rights for the same work in the same place."

We need to discuss the issue of strengthening the European definition of an employee to prevent phenomena such as bogus self-employment, abusive practices in employment contracts and new forms of "day labour" including zero-hour contracts. A recast of the European Working Time Directive needs to reinforce the positive effects of the existing directive without sending flexibility skyrocketing. The debate on the creation of a new Free Trade Agreement must therefore be strictly based on the defence and reinforcement of our labour and social security standards. Labour and social security standards are not barriers to trade.

I will direct my energies towards strengthening the social dimension of the European Union as a whole. The crisis management policies pursued over the last few years have not solved the problems: on the contrary, they have made them even more pressing. It is time to turn the tide. I will make every effort to do this in the Committee on Employment and Social Affairs.

Fairness and solidarity in a social Europe is only possible if we have good jobs, good pay, good pensions and social progress for everyone, protecting us against poverty and ensuring that we can live without fear. Enough new jobs – and an increase in the target employment figures – will only become realistic goals if there is massive investment linked to measurable employment targets. People should speak of the European Union in the same breath as hope and good prospects in life, not associate it with fear and depression.

Contribution from Bernadette Ségol, General Secretary of the European Trade Union Confederation (ETUC)

What are the key challenges for European Employment policy?

European employment policy cannot be separated from economic policy. So whatever action the European Commission takes in the context of the European Semester will have an impact on employment. Europe's macroeconomic policies must be realigned to foster sustainable growth and quality jobs.

We have to take stock of the fact that existing policies are not reducing unemployment, and at the same time have massively increased precarious work and inequalities since the start of the crisis. According to the Commission's own data, over half of all hirings in 2012 were on temporary contracts – the great majority involuntary. In some sectors, over 70 % of new contracts were temporary ones. At the same time, low-skilled workers have been hit hardest by the decline in job opportunities, widening the gap between rich and poor across Europe.

In tomorrow's world, Europe will need new skills and competences in order to be competitive in the world and to develop green and sustainable industries. But precarious employment does not lead to more competitiveness or increased productivity.

We need a revitalised employment strategy, as a priority, centred on an ambitious investment plan for the creation of quality jobs and support for industry through a renewed European industrial policy. The ETUC is calling for an additional investment of 2 % of EU GDP over the coming 10 years, which could improve public services, develop environmentally friendly technologies and create up to 11 million new jobs.

How to reinforce the role of social partners in the European economic governance?

There are two ways to reinforce the role of the social partners. The first is to give more importance to the macroeconomic dialogue (MED), which provides for a twice-yearly exchange of views between the Council, Commission, European Central Bank and the social partners.

The MED is supposed to ensure that macroeconomic policy-makers take account of the position of trade unions and employers, who are responsible for collective bargaining and wage formation. But unfortunately it seems to have become a dialogue of the deaf, as far as policy-makers are concerned. We want to know: are they really listening?

The second point is to take the social dialogue at national level more seriously, and to ensure that it is factored into the formulation of the Commission's Country Specific Recommendations (CSRs) for boosting growth, increasing competitiveness and creating jobs, before they are drawn up.

The CSRs deal with matters of concern to trade unions and employers. If they are drafted in a 'top down' manner, this is not democratic, and they are not going to work.

Social dialogue needs to be strengthened at national level. In some EU countries it works well, but in others it is just an administrative procedure, or does not exist at all. Does meaningful social dialogue take place in Hungary and Poland, for example? The Commission is always talking about supporting national social dialogue, but does very little to create the right conditions and check whether it is working.

What do you see as the next steps for a sustainable Economic and Monetary Union? How could social dialogue contribute to the deepening of the social dimension of the EMU?

The first requirement is to secure a sound financial sector, and not step back from applying the necessary controls and regulations, despite pressure from the financial lobby. We also need to stop tax fraud, tax avoidance, tax evasion and tax competition between companies.

The EU also needs to make progress in building the banking union. Establishing a fund to rescue banks at national level means increasing solidarity between EU member states. Help must be available for countries in the most difficult situation with regard to debt levels. For example, if we want Greece to stay in the Eurozone, its debt must be restructured.

The ETUC has been pushing for the partial mutualisation of debt in the form of Eurobonds. We are also strongly in favour of a tax on financial transactions (FTT). The EU has to stop competition between countries on company taxation, and fight actively against tax fraud, evasion and avoidance.

Social dialogue can reinforce the social dimension of EMU if all agree on the need for greater investment, including public investment, and on the role of wages in the economy. Wages are the motor of the economy, and wage inequalities are now a real problem. Even the Organisation for Economic Cooperation and Development (OECD) warned recently that any further wage cuts in the hardest-hit countries would do little to create jobs, but instead increase the risk of poverty and depress demand. We need payment of fair wages to all workers. Implementation of a wage floor can be done gradually through increasing legally enforceable minimum wages and/or through collective bargaining. The Council of Europe definition of what is a fair wage offers a guideline. The ETUC is also in favour of a common European principle for a national minimum income.

Contribution from Markus J. Beyrer, Director General of BusinessEurope

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What are the key challenges for European Employment policy?

The main challenge is to reduce unemployment. And for that, we need dynamic European labour markets, with a well-educated and mobile workforce, and able to match companies' needs in the short, medium and long term.

The role of the European Union is to provide an effective and coherent policy framework for national labour market reforms leading to employment and productivity gains.

In 2007, the European Commission focused its employment agenda on the adoption of European principles on flexicurity. These principles remain valid today. It is important now, as it was then, to remove bottlenecks to job creation which undermine employment and are the main reason for structurally high levels of unemployment in Europe since several decades.

In 2012, BusinessEurope welcomed the emphasis put on job creation as part of the Commission's employment package. But this was not enough to trigger the reforms needed. We have distanced ourselves from the 75 % Europe 2020 employment rate target.

Much more needs to be done. On the demand side, it is essential to ensure labour costs are and remain in line with productivity. In particular, non-wage labour costs in the EU should be reduced significantly. They are currently 40 % higher than for other advanced economies such as the US and Japan. This is an important competitive disadvantage undermining job creation in Europe. On the supply side, the priority is to reform tax and benefits systems to avoid unemployment traps. At the same time we must help people to re-skill in order to ensure that all people who can work do so.

How to reinforce the role of social partners in the European economic governance?

In October 2013, the European social partners adopted a declaration on social partner involvement in European economic governance processes. This document makes clear recommendations on how to step up the role of European and national social partners in EU governance processes.

Some progress has been made at European level to associate social partners more closely in the European semester process, most notably through a new consultation of social partners regarding the social aspects of the Annual Growth Survey and in the context of the Council's Employment Committee.

Where most progress is needed is to ensure a better involvement of national social partners all along the different steps of the European semester. In the last years, we have highlighted to the Commission and Council that enough time should be given to ensure meaningful consultations. The Commission should also make sure that national governments consult with social partners adequately, making a clear distinction between them and other social actors that do not have the same role in shaping and taking responsibility in employment and social policies.

What do you see as the next steps for a sustainable Economic and Monetary Union? How could social dialogue contribute to the deepening of the social dimension of the EMU?

The main conditions for a sustainable Economic and Monetary Union are competitiveness, growth and employment.

Higher growth is needed to guarantee sustainable fiscal consolidation and create jobs. However, at the same time, growth will not take place unless business and consumers have confidence in the sustainability of public finances. That is why fiscal consolidation and growth enhancing reforms must go hand-in-hand.

One clear lesson of the last years is that those countries that reformed themselves in time and respect EU budgetary rules have fared much better during the crisis. Moreover, constantly accumulating deficits as has happened in the past is not a sustainable route to growth and employment. In the future, we must make greater use of periods of economic growth to reduce public debt.

The key to strengthen competitiveness, growth and employment in the short-term is to make more progress on the structural reforms agenda. But according to our national federations, only 23 % of the 150 recommendations made to Member States in 2013 have been properly implemented. The European Union should do more to ensure better implementation of country-specific recommendations.

Social dialogue can be a driving force for the adoption and implementation of structural labour market reforms. But if this is not the case, governments should act.

In the long run, the development of contractual arrangements and associated solidarity mechanisms have the potential to strengthen the EU's role in encouraging necessary reforms and fiscal consolidation, provided they are linked to reform implementation and do not lead to an increase in the overall tax burden in the Euro area. To be effective, funds provided through EMU solidarity mechanisms should be targeted, temporary and conditional on the delivery of reforms.

Contribution from Tom Bevers, Chair of the Employment Committee (EMCO)

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What is the role of the European Employment Strategy and the employment objectives in the context of the Europe 2020 strategy for a smart, sustainable and inclusive growth?

The European Employment Strategy (EES) pre-existed Europe 2020. It was created in 1998, on the basis of Article 148 of the Treaty, and entered the new Strategy with more than a decade of experience in the coordination of employment policies. It was therefore rightly used as one of the main institutional building blocks for Europe 2020, encompassing labour market policies, wage-setting, human capital formation and social inclusion.

Moreover, the experience of the Strategy in defining indicators and setting targets made it possible to provide a strong underpinning to three of the five headline targets that were defined. The employment rate target is a case in point: it sets a clear benchmark, and the Member States haven taken up the challenge. Both the EU and the national targets are still a reference in the debate on employment, as they should be. It was well known that the targets were not going to be easy to reach, and the Great Recession has obviously made the task more difficult, but I think policymakers all over the Union still realize very well that the employment levels embedded in these targets are a prerequisite for preserving the EU's competitiveness and our social models.

The Employment Committee therefore strongly believes that a renewed Europe 2020 Strategy does not require new processes. The EES should be used to its full potential to make sure the governance arrangements remain balanced. The employment guidelines, the cornerstone of the EES, should be updated, to reconfirm their over-arching nature and make them more transparent and user-friendly. These guidelines are an under-developed tool and we need to make better use of them.

We should not therefore focus on the procedures behind Europe 2020, but instead concentrate on substance. In particular, we cannot afford reform fatigue if we want to prepare our labour markets for the challenges of a future that has become more imminent than ever.

What role should EMCO play as part of the reinforced European economic governance (European Semester)?

EMCO has been instrumental in ensuring that the governance arrangements of the current European Semester are relatively balanced and involve both the ECOFIN (Finance Ministers) and EPSCO (Labour and Social Affairs Ministers) Council. The Committee firmly believes in active engagement as equal partners and has a track-record of ensuring this. To achieve this aim, we made a double investment. Firstly, we reinforced our analytical instruments, which led to the creation of the Employment Performance Monitor, to identify each Member State's strengths and key challenges in a rigorous way. The Monitor was recently topped up with the new Scoreboard of Employment and Social Indicators, thereby allowing for the interpretation of Scoreboard's headline indicators in a coherent and nuanced way.

Secondly, EMCO has pioneered a thorough multilateral surveillance process to make sure we develop a genuine collective view on each of the country-specific recommendations that have become even more than before the focal point of the governance system. We established a process that ensures that policy developments are discussed in-depth, frankly and with an open mind. These discussions take into account the economic, social and political context in which they have been put in place, and through an evidence-based process, draw clear conclusions. They represent a genuine EU wide view on implementation in each of our Member States. On the basis of these reviews, we discuss and where needed amend the draft recommendations that are proposed by the Commission. I strongly believe in this multilateral approach. A reinforced governance process should in my opinion never be reduced to or centred around a negotiation between one Member State and the Commission. No single institution can ever replace the richness of insights and experiences that decades of policy making in 28 countries embed.

It is evident that the EPSCO Council must maintain its central role in the process, together with ECOFIN. Not for the sake of the Council or its Ministers, but because it is the only way to make sure that employment and social policies are not seen as a side-effect of economic policy choices. As a Committee, we should therefore continue to invest in both our analytical and surveillance capacities, integrating the need for an earlier (*ex ante*) discussion where this is appropriate, .and further developing our cooperation with the actors in the social inclusion field, in the human capital domain and most importantly the social partners. This is necessary as EMCO wants to remain the central actor in the governance of the broad European Employment

Strategy, bringing together all different inputs to feed the Council.

Why and how should the coordination of employment policies be strengthened in the context of the deepening of the EMU?

We all realize by now how much the EMU has suffered over the last years because of some construction flaws. Further economic policy coordination is undoubtedly needed, and the employment policy domain clearly has to be part of this agenda. Moreover, we have learned that imbalances and excessive divergences can threaten both economic progress and the social fabric within the Union. Nevertheless, there is no need to reinvent the wheel: we should build upon existing instruments to learn from each other, share best practices and use peer pressure to foster progress. The Youth Guarantee has given us a practical and successful example of how a common direction can help us all to bring about a structural change.

Obviously, the current governance arrangements for the Eurozone are not optimal and lack the institutional balance that the Europe 2020 Strategy has. However, any new processes should remain as inclusive to all Member States as possible: even when we don't all share a common currency, our labour markets do share the same challenges; and needed labour market reforms, or lack of them, in one Member State can have important effects on others outside – this goes for all EU countries, even when the common currency requires some extra attention to wage policies, to name the most obvious example, within the Eurozone.

Glossary

Activity Rate

The number of people in the labour force (employed and unemployed) as a proportion of the working age population, expressed as a percentage.

Active Labour Market Policy (ALMP)

A government programme that intervenes in the labour market to help the unemployed to find work. There are three main categories of ALMP, Public Employment Services, Training Schemes, and Employment Subsidies.

Annual Growth Survey (AGS)

The AGS sets out the priorities to guide Member States' reform policies. As such, it starts the European Semester for economic policy coordination which ensures that Member States align their policy action with both the Europe 2020 Strategy and the Stability and Growth Pact.

Apprenticeships (as an EU term)

Apprenticeships are those forms of Initial Vocational Education and Training (IVET) that formally combine and alternate company based training (periods of practical work experience at a workplace) with school-based education (periods of theoretical/ practical education followed in a school or training centre), and whose successful completion leads to nationally recognised IVET certification degrees. Most often there is a contractual relationship between the employer and the apprentice.

Automatic stabilizers

Automatic stabilizers are features of the tax and transfer system (welfare spending) that tend to offset fluctuations in the economic cycle.

CSRs

Country-specific recommendations identify particular policy challenges in individual Member States and propose ways to solve these.

Decent Jobs

Jobs characterised by high degrees of job security, good level of pay, good quality of working conditions and adequate social protection.

Employment guidelines

The EU employment guidelines set out policy guidance that Member states shall take into account in their employment policies.

Employment Rate

The number of people employed as a proportion of the working age population, expressed as a percentage.

EMU Unemployment Benefit Scheme

An euro area unemployment benefit scheme is a pan national unemployment insurance that could act as EMU-wide shock absorber in economic downturns .

ESCO – European Skills, Competencies, Qualifications, and Occupations.

ESCO is a European Project to establish a common reference language for the labour market and the education and training sector in Europe thereby reducing communication obstacles.

EURES – the European Network of Employment Services

EURES has a network of advisors in European Public Employment Services working on transnational and cross border mobility issues. The human network is complemented by a Job Mobility Portal providing access to job vacancies, a CV online, and labour market information.

European Employment Strategy (EES)

The European Employment Strategy aims to foster convergence towards lower unemployment and higher employment in Europe.

European Semester (for economic policy coordination)

The yearly cycle of economic policy coordination aiming at sustained convergence of economic performance of the Member States, through multilateral surveillance and guidance for economic, employment and budgetary policies.

EU Skills Panorama

A website presenting quantitative and qualitative information on short and medium term skills needs, skill supply, and skill mismatches. http://euskillspanorama.cedefop.europa.eu/

European Social fund (ESF)

Europe's main tool for promoting employment and social inclusion – helping people get a job (or a better job), integrating disadvantaged people into society and ensuring fairer life opportunities for all. It does this by investing in Europe's people and their skills – employed and jobless, young and old.

Europe 2020 Strategy

Europe 2020 is the EU's strategy for employment and growth over the present decade. The goal is to provide the EU with a smart, sustainable and inclusive growth. Europe 2020 Strategy has been set up in 2010.

Gross Domestic Product (GDP)

The market value of all final goods and services produced in an economy in a given year.

Inactivity Rate

The proportion of the population of working age who are not in the labour force. Often referred to as the 'economically inactive'.

Inequality (income)

The measurements of income inequality are based on data related to people's household disposable income. One such inequality measurement is the ratio between the incomes of the 20 % of people with the highest incomes and the incomes of the 20 % with the lowest incomes.

Joint Employment Report

The Joint Employment Report considers annually the employment situation in the EU. The report is jointly adopted by the European Commission and the Member States (Council).

Mobility (as an EU term)

Mobility in this context describes someone who is willing and able move within the EU to find work. The EU supports mobility to help people find suitable employment away from their home region.

NEETs – (Young people) Not in Education, Employment or Training

Young people, aged 15-24, who are not in employment, education, and training.

PES – Public Employment Services

Public Employment Services are governmental organisations, public employment agencies which match employers to employees as a way to combat unemployment through helping people to find work.

Productivity

Gross added value, usually measured per employee or per hour worked.

Scoreboard of key employment and social indicators

The scoreboard allows following key employment and social imbalances in EU countries. It allows for a better and early detection of major employment and social problems, and thus for prompt action. The scoreboard tracks (youth) unemployment, household incomes, the risk of poverty as well as income inequalities in EU countries. The scoreboard has been integrated within the European Semester.

SMEs

Small and Medium sized Enterprises.

Segmentation

A labour market characterised by the existence of distinct, non-competing groups with limited prospects of mobility between them. This characterisation can take the form of those on temporary employment contracts vs. those on permanent ones. Other forms of segmentation include ethnicity, gender, and skill level and may occur in internal (within a firm) or external labour markets.

Social Dialogue

The dialogue between representatives of management (employers) and labour (trade unions) which is a key pillar of the European Social Model, involves both sides being committed to find consensual solutions on issues of common interest, and where collective agreements are negotiated.

Structural Unemployment

Unemployment resulting from a mismatch between the demand for workers and the supply of workers required. It arises as a result of the structure of the labour market, where workers do not have the skills they need, or are in the 'wrong' place to access job opportunities. It may also arise because there is insufficient incentive for workers to take up the jobs available. Its extent, and change over time, may be characterised by the unemployment/vacancy ratio or by the 'Beveridge Curve': the relationship between the rate of unemployment and the vacancy rate through time.

Tax Wedge

The difference between the total labour costs to the employer and the net take–home-pay of employees. Usually measurable as the total of employer and employee social security contributions, pay roll taxes and employee income tax, minus benefits, as a proportion of total labour costs. It varies between 18 % and 49 % across EU Member States.

Traineeships (as an EU term)

Work practice including an educational/training component which is limited in time. They allow to document practical work experience as part of the individual CV and/or as requested in educational curricula or to gain work practice for the purpose of facilitating the transition from education and training to the labour market. They are predominantly short to middle-term. The Council adopted a Recommendation on a Quality framework for Traineeships on 10 March 2014.

Unemployment Rate

The proportion of the unemployed labour force (employed and unemployed), expressed as a percentage.

Unemployment Rate (long-term)

The proportion of the labour force, unemployed for a continuous duration of 12 months or more, expressed as a percentage.

Youth Employment Initiative (YEI)

An additional funding instrument for delivering the Youth Guarantee in EU regions that are experiencing youth unemployment levels above 25 %.

YGIP - Youth Guarantee Implementation Plan.

The Youth Guarantee Implementation Plan covers details on implementation of the Youth Guarantee, including the roles of public and other implementing authorities, funding sources, evaluation and monitoring arrangements, and the delivery timetable of reforms.

Youth Guarantee (YG)

The Youth Guarantee is a new approach to tackling youth unemployment which ensures that all young people under 25 – whether registered with employment services or not – get a good-quality, concrete offer within 4 months of them leaving formal education or becoming unemployed.

The good-quality offer should be for a job, apprenticeship, traineeship, or continued education and be adapted to each individual need and situation.

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The Social Europe guide is a bi-annual publication aimed at providing an interested but not necessarily specialised audience with a concise overview of specific areas of EU policy in the field of employment, social affairs and inclusion. It illustrates the key issues and challenges, explains policy actions and instruments at EU level and provides examples of best practices from EU Member States.

Volume 8 looks at EU employment policy, underpinned by the European Employment Strategy. It highlights major initiatives to tackle the disruptive effects of the economic crisis, notably the Europe 2020 Strategy and the European Semester. The guide also covers new initiatives to tackle EU unemployment or social disparities, such as the Employment Package, Youth Employment Package, and the scoreboard of key employment and social indicators. There is also a focus on promoting labour mobility, enhancing dialogue with social partners, and plans to complete Europe's monetary union by introducing a common fiscal capacity.

The guide is available in printed and electronic format in English, French and German.

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