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**COMMUNICATION FROM THE COMMISSION**

**Community Policies in Support of Employment**

# Community Policies in Support of Employment

## Communication of the European Commission

### 1. Introduction

At the extraordinary European Council meeting in Luxembourg on 20/21 November 1997, the Heads of State and Government endorsed an ambitious European employment strategy. This strategy encompasses the co-ordination of Member States' employment policies on the basis of commonly-agreed employment guidelines (the *Luxembourg process*), the continuation and development of a co-ordinated macroeconomic policy and an efficient internal market, with a view to laying the foundations for sustainable growth, new dynamism and a climate of confidence conducive to boosting employment. The strategy also involves the harnessing in a more systematic way of all Community policies in support of employment, both framework policies and support policies.

At the European Council meeting in Vienna in December last, the Commission was invited, in the context of a strengthening of the Luxembourg process, to present a communication on the mainstreaming of employment policies at Community level based on Article 127 of the Amsterdam Treaty. This Article provides that the objective of a high level of employment shall be taken into consideration in the formulation and implementation of Community policies and activities.

The Vienna Summit also endorsed the idea of a European Employment Pact to be discussed at the Cologne Summit. Discussions are currently taking place in various fora, eg Ecofin and Social Affairs Councils, Economic Policy Committee, Employment and Labour Market Committee, Standing Committee on Employment, Social Dialogue Committee, in order to define the contributions of the respective participants.

The aim of this Communication is two-fold, therefore: it takes a horizontal view of a range of Community policies in order to highlight their potential contribution to employment, and seeks to identify, in the context of the ongoing work under the Luxembourg process, possible elements of the proposed Pact.

#### The employment challenge

The European employment strategy is based on a recognition that the EU has a substantial growth potential in the working age population. The current EU employment rate is below 61% but it varies greatly between Member States<sup>1</sup>. If the performance of the three best Member States, or of the United States, is taken as a benchmark, an additional 30 million or more people could be employed. This would raise EU employment from 150 million to 180 million,

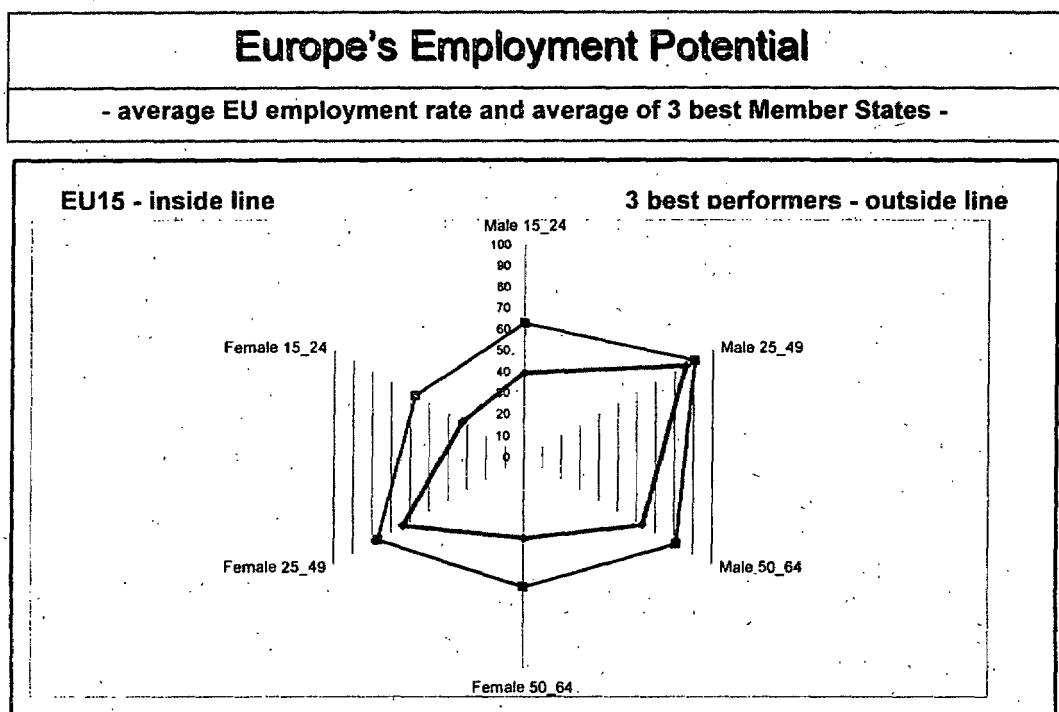
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<sup>1</sup> Employment Rates Report 1998 - COM(1998)572

substantially improving public finances and making pension systems much more sustainable.

The Commission has advocated that the EU's longer-term objective must be to move progressively towards an employment rate of over 70% in line with those of its main trading partners, in particular the US and Japan. In a medium-term perspective, a determined implementation of the Broad Economic Policy Guidelines and the Employment Guidelines is expected to help towards halving the gap in employment rates.

Higher levels of employment will affect men and women, and younger and older age groups, rather differently. The employment rate of men aged 25-49 is already very high - around 90% - in almost all Member States. The differences between Member States are mainly seen in three areas - among women in general, among young people of either sex, and among older male workers. A better integration of these groups in gainful employment, while respecting the necessary role of education and lifelong learning, is an essential step in preparing the European Union for the new demographic perspective of a much slower growth, and then a decline, in the working age population.



Source: Labour Force Survey

The EU had expected the strong employment-creating growth of 1998 to continue into 1999. Although the deteriorated international environment has required a downward revision of the economic forecasts, job creation should only be mildly affected and job losses are also likely to be limited. However, success in attaining higher levels of employment over the longer term still depends fundamentally on the levels of sustainable growth and productivity that are achieved and maintained, which depend, in turn, on the soundness of

the macro-economic policy mix and on the efficiency with which markets, especially labour markets, operate.

This is a complex and dynamic process. Moreover, the ease with which it works and the nature, quality and distribution of the employment that is generated, depends also on the impact of a wide range of other policies, operating under a mix of individual and shared responsibilities at national and EU level, not forgetting the important role of the social partners.

This process also inevitably involves job creation and job destruction: new jobs requiring new skills replace old jobs involving old skills; successful firms take the place of the less successful; some sectors decline while others expand. The creation and growth of new enterprises is a crucial factor in renewing the EU economy. A spirit of enterprise, and a climate conducive to entrepreneurship, will accelerate structural change and contribute to the development of new markets, products, services and jobs. In this context, the overall aim of improving the competitiveness of EU enterprises remains paramount.

#### Synergy between employment policies and overall economic policies

At the European Council meeting in Vienna the Heads of State and Government agreed that employment policy has to be embedded in a comprehensive approach encompassing macro-economic policies directed towards stability and employment-creating growth, economic reform promoting competitiveness, and the Employment Guidelines, which are designed to improve employability, adaptability, equal opportunities and job creation in existing and new enterprises. With a view to achieving this goal, the Vienna Summit called for greater synergy between the Broad Economic Policy Guidelines and the Employment Guidelines. The Commission has been mindful of these conclusions in the formulation and presentation of the policy mix set out in the 1999 Broad Economic Policy Guidelines as well as in this Communication.

A determined implementation of the European employment strategy, i.e. both the macro-economic strategy and the structural reforms recommended in the 1999 Employment Guidelines and the 1999 Broad Economic Policy Guidelines, is required in order to raise growth levels to a sustainable path, and thereby yield a substantial reduction in unemployment and arrive at a significant increase in the employment rate in the EU on a lasting basis. Taken together, these efforts will raise the employment levels in Europe in line with the objectives agreed at the extraordinary European Council meeting in Luxembourg.

#### A broad and intensive dialogue

Improved synergy requires dialogue between policy-makers and decision-takers in different areas. The Vienna Summit has called for a broad and intensive dialogue between all the actors involved, i.e. the Council, Commission, European Parliament, Social Partners, ECB and EIB. The

Heads of State and Government consider such a dialogue of prime importance for the overall strategy for employment, growth and stability.

The ongoing discussions with the Social Partners in the framework of the social dialogue suggests that an improved synergy between macroeconomic and employment policies would help facilitate such a broader dialogue.

### Towards a European Employment Pact

The Commission has already identified a number of elements of the proposed Pact in the 1999 Broad Economic Policy Guidelines, in particular growth and stability oriented macro-economic policies as part of a comprehensive, coherent strategy. In the context of this strategy, further key elements of the Pact include the following:

- Within the policy framework established by the 1999 Employment Guidelines and the 1999 Broad Economic Policy Guidelines, Member States should continue their labour market reforms by implementing their National Action Plans, as well as the wider structural reforms. This requires progress on comparable data and indicators at Community level, as well as a stronger regional and local dimension in the National Action Plans.
- The Social Partners should continue to support the European employment strategy, notably through appropriate wage developments in line with the 1999 Broad Economic Policy Guidelines, and contribute to implementation of the Employment Guidelines, including joint initiatives to modernise the organisation of work.
- The European Commission for its part pledges its full support to Member States and Social Partners across a range of EU policies and initiatives which can promote growth, competitiveness and employment.

## **2. Commitments by Member States**

### Implementation of the 1999 Employment Guidelines

During 1998, the first year of implementation of the European employment strategy, Member States committed themselves to bringing their employment policies into line with the targets and objectives of the Employment Guidelines, and started implementing the policy reforms and initiatives outlined in their National Action Plans.<sup>2</sup>

New actions in the field of prevention and activation have been developed for both young and adult jobseekers, mainly by intensifying training, counselling and job search assistance. For this purpose, employment services are being upgraded. Reforms of the formal education system are under way so that young people acquire more marketable skills and the problem of early

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<sup>2</sup> see 1998 Joint Employment Report

dropouts is being tackled. Lifelong learning is now a policy priority in many Member States and social partners are being urged to agree on proposals to facilitate access of employees to further education and training.

Member States have also committed themselves to policies which promote an entrepreneurial spirit and simplify and improve the business environment. This includes exploiting new opportunities for job creation at the local level, in the social economy, and the service sector. Tax reforms are being introduced to cut labour costs, thereby reducing obstacles to the recruitment of workers, especially at the lower end of the wage spectrum. Policies on equal opportunities are being progressively assimilated into national policy-making in recognition of the increasing role of women in closing the employment deficit. Despite this progress during 1998 in the modernisation of labour markets brought about by the implementation of the Luxembourg process, substantial deficiencies remain. The 1999 Joint Employment Report will seek to evaluate the progress achieved to date and identify shortcomings that remain to be tackled.

Moreover, the tasks facing Member States in 1999 are all the greater in the light of the revised 1999 Employment Guidelines. New Member States' initiatives are expected in order to tap the potential for job creation in the under-developed service sectors. A resolute implementation of the conditions for better access to lifelong learning will help contribute to reducing the skills gap in our society and to achieving a better utilisation of the workforce. Solving these key structural problems, which are shared in variable degrees by all Member States, is an essential pre-condition for employment creation without generating inflationary pressure. Mainstreaming of equal opportunities has to become an integral part of the policy-making process in every field of employment policy. More attention also needs to be given to the problems of specific disadvantaged groups like the disabled, ethnic minorities and older workers.

Member States are currently updating their National Action Plans to take account of the 1999 Employment Guidelines and recent developments in their labour markets. Of course, while addressing each of the Guidelines, it has to be recognised that priorities differ between Member States depending on their labour market situations and this diversity of priorities and situations is reflected in the range of policies and measures set out in each of the National Action Plans. For the purposes of the European Employment Pact, Member States may wish to highlight particular priorities, or priority areas, and commit themselves to making a special effort to achieve progress. These could include the special needs of young people or older workers, the integration of disabled people or other vulnerable groups, making practical progress on lifelong learning, or decisive action on closing gender gaps. The Commission is not suggesting any new initiatives outside the scope of the National Action Plans but rather that Member States may avail of this opportunity to develop or intensify a flagship programme designed to tackle a pressing labour market need.

## Employment indicators

The Vienna European Council stressed that the effective and transparent monitoring and evaluation of the employment strategy, at both national and European levels, depended on the development of common performance and policy indicators, and comparable statistics. This requires consistent and strengthened efforts from the Member States to develop further their statistical databases through co-operation between the responsible ministries, statistical offices and others. The Commission, together with Eurostat, is committed to assisting the Member States in these efforts and in improving the comparability of their data at the European level.

A first set of basic employment indicators ("performance indicators") was agreed in 1998 and used in the 1998 Joint Employment Report. The Commission and the Member States are now working to define all the indicators that are needed in relation to the National Action Plans. Current work is focusing on indicators measuring the policy effort and the policy outcomes, and a broad degree of agreement has been achieved on indicators for the first three EU-wide operational targets – youth unemployment, long term unemployment, and more active policies in support of the unemployed. In line with the new Guideline on the mainstreaming of equal opportunities, these indicators will provide information by gender. Further work will be carried out under the auspices of the Employment and Labour Market Committee on appropriate indicators to monitor the implementation of the other Employment Guidelines and the achievement of national targets, particularly as regards access to lifelong learning.

Eurostat and the Member States' Statistical Offices are continuing to improve the comparability of national labour market statistics. This involves in particular the development of register data on unemployment flows and the improvement of their comparability. Work is underway on measuring the numbers of participants in labour market measures and the related expenditures which is an essential precondition for monitoring labour market policies. However, some Member States still need to commit themselves to the introduction of the EU-wide continuous Labour Force Survey. Consideration must also be given to the carrying out of an EU-wide ad hoc survey addressed to registered unemployed persons to provide comparable information on the length of unemployment spells and the type of employability measures that are being offered to the unemployed.

## Regional and local support

Unemployment levels and the availability of jobs vary considerably from region to region, and even from locality to locality, across the European Union. A person's chance of finding a job, or pursuing a career which suits his or her skills and abilities, still depends to an important extent on where they live.

Differences in unemployment rates - which ranged from under 3% to over 30% - are reflected in employment performance. In parts of Denmark and south-east England almost 80% of the working age population is employed,

while in parts of Southern Italy and Southern Spain the proportion is around 40%.

Such disparities in employment performance reflect deep-seated problems of regional economic and social development. This has led to action to strengthen investment in human resources and infrastructure, as well as institutional and related reforms, in order to enhance the potential of the areas and make them more attractive for investors. Local development has now become an integral part of the EU strategy for regional economic and social development and the 1999 Employment Guidelines have highlighted the important role of local actors in the job creation process.

The Commission is examining the experience gained to date in the operation of Territorial Employment Pacts with a view to identifying and disseminating examples of good practice which could form the basis for a mainstreaming of such practices. The development of an enhanced role for local authorities in implementing the National Actions Plans is also under consideration.

It is worth noting that the revised Regulation on the European Social Fund makes specific mention in Art.2 of support for local development, including local employment initiatives and territorial employment pacts. In addition, the revised Regulation laying down general provisions on the Structural Funds provides in Art.8 for strengthened partnership arrangements and specifically mentions the regional and local authorities as well as other competent authorities. The Commission therefore expects an enhanced regional and local dimension in Structural Fund programmes in the period 2000-2006.

It should be noted in this respect that the Committee of the Regions, together with the Conference of European Municipalities and Regions - CERM - already intend to undertake a 'Local action for employment' programme in 1999-2000 in which mayors and local authorities will be encouraged to take part in the implementation of the employment guidelines. The Commission is supporting this initiative.

An important role in local development is played by enterprises and organisations in the social economy. Therefore, the Commission is encouraging Member States to enhance the social economy's capacity to create jobs and enterprises in two ways: firstly, by increasing its profile so as to bring it into mainstream employment and enterprise strategies and encourage the improvement of administrative frameworks; secondly, by establishing support bodies, management training, and new forms of activity, all tailored to the needs of social economy entrepreneurs.



### **3. Commitments by Social Partners.**

The social partners play a crucial role in shaping the conditions for growth and employment, both on the macro-economic level and in the workplace. This role was recognised from the outset in the European employment strategy, when the European Council asked the social partners to be involved at all stages and all levels of the employment process. The Vienna European Council, called for an increased involvement and responsibility of the Social Partners in the context of the proposed European Pact on Employment again highlighting the need for the social partners to contribute to improving economic performance and social equity.

Of course, much of the responsibility for making this contribution rests at local and national levels, starting indeed with the social partners in each company, but there is also a clear and necessary role for the social partners at the European Union level. Their contributions at this level are made through a number of channels.

From the outset, the Employment and Labour Market Committee has closely associated the social partners with its work, and the newly-reformed and streamlined Standing Committee on Employment will facilitate tripartite discussions between social partners, the Commission and Government representatives at the highest level.

The Social Dialogue Committee remains the principal forum for dialogue between the inter-professional social partners at European level, allowing discussion and joint action on all aspects of the European employment strategy. The new Sectoral Dialogue Committees are taking over from previous structures and are continuing to develop the role and contribution of the sectoral social partners to employment.

The social partners have also established a dialogue with the European Central Bank on macro-economic and structural policies. The Commission expects the social partners to continue their contribution to the implementation of a macro-economic policy mix favourable to growth and employment by giving continued support to appropriate wage developments and structural reforms in line with the 1999 Broad Economic Policy Guidelines.

The Commission has welcomed the social partners' continued support for the implementation of the Employment Guidelines, but stresses the need for a sustained effort in those areas, particularly adaptability, where they have prime responsibility and competence. The social partners are currently discussing their further contribution to this process, in the first instance through a joint dialogue in response to the Commission's Communication on the modernisation of work organisation.

The Commission recognises that the social partners are working, at all levels, to develop the necessary balance between the needs of companies for flexibility and the needs of employees for security. The challenge represented by the adaptability pillar of the Employment Guidelines requires a framework for action which only the European social partners themselves can create.

While the social partners are best placed to establish their own agenda, the Commission has identified issues such as new forms of work organisation and new types of work contract, temporary work, teleworking, lifelong learning and all aspects of training as issues of particular significance which require attention.

The European social partners have already shown they are capable of making important and concrete contributions on such subjects. They have concluded collective agreements on parental leave, part-time work and, most recently, on fixed-term contracts at interprofessional level, while the sectoral social partners have drawn up agreements on working time and training, among other subjects. The Commission encourages the social partners to continue this positive and constructive approach.

Through such actions - in relation to both the macro-economic conditions and the modernisation of the work organisation - the social partners can contribute to the European employment strategy and to developing some of the most crucial elements of a European Pact for Employment, in accordance with the approach adopted at the Vienna European Council.

It should be noted that the revised Regulation laying down general provisions on the Structural Funds provides for strengthened partnership arrangements and specifically mentions the role of economic and social partners. The Commission therefore expects an enhanced involvement of the social partners in the next round of Structural Fund programmes. In addition, Art.6 of the revised Regulation on the European Social Fund provides that the Commission may finance, inter-alia, certain operations within the framework of the Social Dialogue.

#### **4. Commitments at the EU level**

The principal commitment of the European Commission in the employment strategy is to support Member States in the pursuit of higher economic and employment performance compatible with balanced and sustainable development. The European level contributions arise in three main areas:

- Encouraging and supporting tangible and intangible investment, notably in human resources, in order to strengthen the EU's productive capacity within the budgetary targets set out in the Stability and Growth Pact, and to underpin the objectives of the European employment strategy.
- Monitoring and promoting structural reforms, in line with the Employment Guidelines and the Broad Economic Policy Guidelines in order to make markets work better and help achieve sustainable growth and employment.
- promoting the modernisation of social protection and taxation systems in order to improve incentives to work and job creation as well as opportunities for insertion or re-insertion into the labour market.

#### 4.1 Investment in physical and human resources

A low level of investment - in production capacity, infrastructure, human resources and in innovation - is one of Europe's major weaknesses. EU-level efforts can help in this regard. The reformed Structural funds will be the main EU support to Member States in implementing the European employment strategy and strengthening investment. In the same way, the new RTD Framework Programme is a major policy instrument which can strengthen and enhance the scientific and technological capabilities of the EU. Further efforts to complete TENS, with greater reliance on new sources of finance will also be important. The aim is to encourage business as well as Governments to bring investment and innovation in the EU, in particular in potential growth sectors, up to the levels of other industrialised economies.

##### Investment and employment

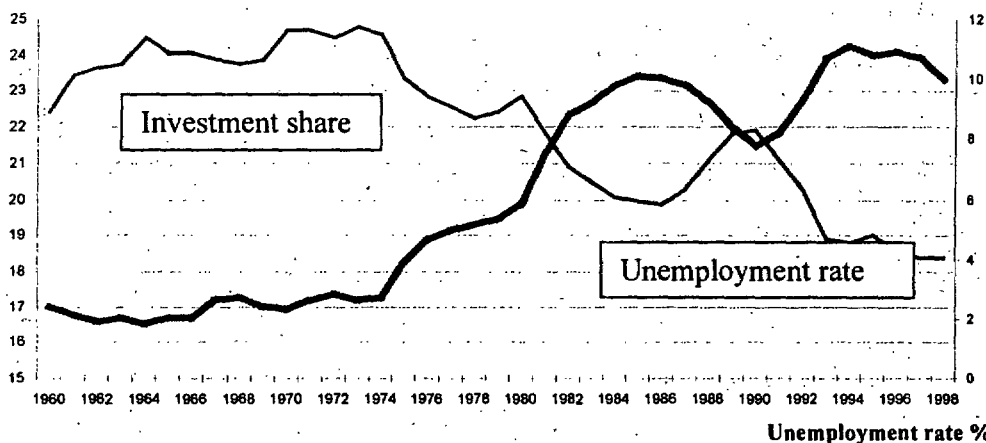
Investment is fundamental to economic and employment growth. During the late 1980s - when the EU economy grew by 3-3.5% and created 10 million jobs - levels of investment were over 20% of GDP. At present only around 17% of EU GDP is invested each year. That rate of investment<sup>3</sup> needs to increase substantially if the EU is to achieve sustained job growth, as indicated in the Commission's Annual Economic Report and in the Broad Economic Policy Guidelines.

### Investment and Employment

EUR 15

1960-1998

Investment % of GDP



##### EU-level financial support for human resource and infrastructure investment

The Structural Funds provide the European Union's main contribution to investment, whether in infrastructure and productive investment, essentially

<sup>3</sup> including immaterial investment, for example in softwares, data bases, patents.

through the European Regional Development Fund, and European Agricultural Guidance and Guarantee Funds or in human resources and active labour market policies through the European Social Fund. These funds, together with the Cohesion Fund, are the Union's main financial instruments in support of sustainable development. As a result of the agreements in relation to Agenda 2000 reached at the Berlin Summit, the Structural Funds and Cohesion Fund resources will amount to €213 bn in the period 2000-2006.

All the Structural Funds support the Union's employment objectives as set out in the Amsterdam Treaty and the Agenda 2000 reforms will strengthen their capacity in this regard. The mid-term evaluation of the current programmes shows a clearly positive impact on growth and employment for all Objectives of the Funds. However, while the employment effects of the Objective 1 programmes are of a long-term character, those of Objectives 2 to 6 are more immediate and linked to adjustment to structural change.

The Vienna European Council agreed that the ESF should support the European employment strategy and the National Action Plans. In its draft guidance for drawing up future Structural Fund programmes, the Commission drew attention to the five areas of activity provided for in the new ESF Regulation - active labour markets to promote employment; an inclusive society open to all; promoting employability, skills and mobility through lifelong learning; developing adaptability and entrepreneurship; and taking positive action for women - which underpin the four pillars of the Employment Guidelines. It also advocated measures with an indirect effect on labour markets, such as developing more competitive enterprises, providing business support services, and supporting local and urban development.

In discussions with Member States on the National Action Plans, the Commission will encourage them to ensure that the Structural Funds are used in a way which integrates Community, national and other funds for maximum employment effect. In the negotiations on the new Structural Fund programmes, the Commission will encourage Member States to translate the principles underlying the Employment Guidelines into practice.

The new integrated rural development policy will operate across the European Union and will accompany the changes brought about by agricultural reforms. This policy will enable local and regional interests to respond to new demands for services in the environmental, tourism, cultural and amenity sectors, as well as for new and more diversified agricultural and food production. These offer considerable potential for employment growth in rural areas.

The European Union also supports investment, and thereby employment, through horizontal financial instruments such as the European Investment Bank and the European Investment Fund. Their activities have a multiplier effect on all kinds of investment. Through the Amsterdam Special Action Programme, the EIB has expanded its financing of investment projects to labour-intensive sectors such as SMEs, education, and health. The Commission will encourage the EIB to allocate more resources to promote, evaluate and co-finance capital projects in high-skill labour intensive sectors, and for human resources. The European Parliament has also supported job-

creation, in particular by SMEs, through its Growth and Employment Initiative, carried out with the help of the EIB and EIF. A € 420m budgetary allocation has been earmarked for the period 1998-2000.

The Commission will aim at ensuring that the objective of sustainable employment creation will be mainstreamed into the programming and implementation of the Structural and Cohesion Funds during the programming period 2000 - 2006. It will in particular endeavour to ensure that there is synergy between the European Social Fund programmes and the implementation of the National Action Plans. It will co-operate with the European Parliament and the European Investment Bank in their actions to promote job-creation.

### Education and Training

The overall objective of the European employment strategy is the creation of a high-skill society in a knowledge-based economy. Stronger investment in human resources is critical, with increasing emphasis on the high-technology, high-skill and service-based segments of labour and product markets.

Shifting the emphasis of investment towards human resources implies that firms take account of employment effects in their planning. The Commission is very much aware of the importance of human resource development for business and employment growth, and in particular on the creation and development of enterprises. This must encompass management training as well as the improvement of employees' skills.

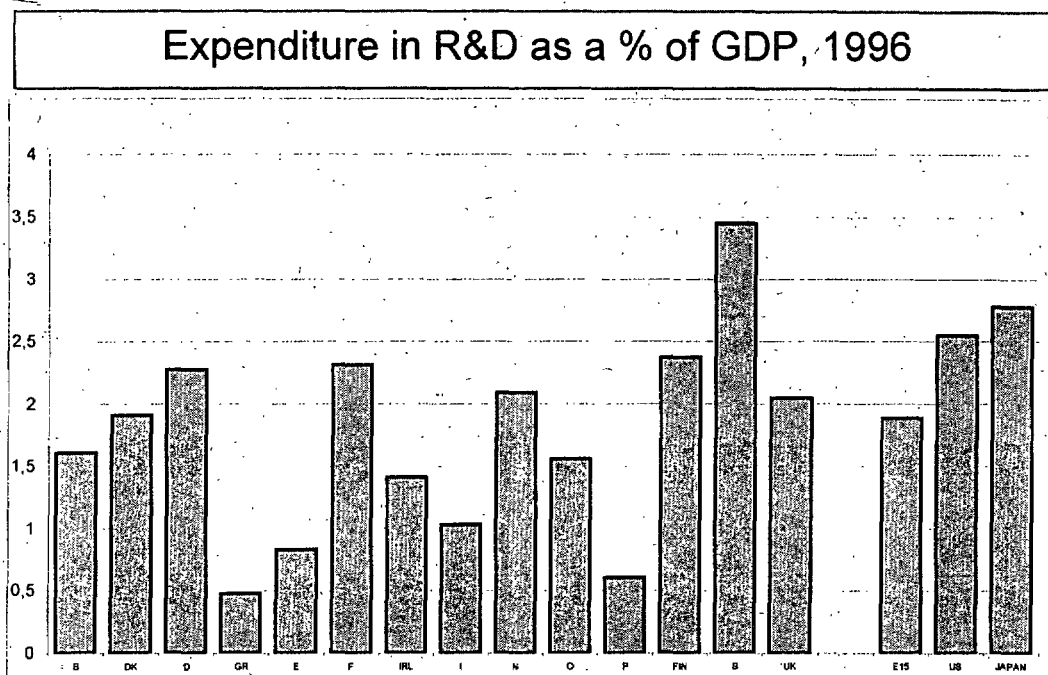
EU programmes in the area of education and vocational training will also be more and more oriented towards promoting employment. This is a key objective of the Leonardo II and Socrates II programmes (due to begin in 2000). The central objective of these programmes is to support at all levels the process of lifelong education and training. The programmes aim to help people improve their employability by acquiring skills and competencies relevant to today's changing labour market. The Leonardo programme, as well as the European Social Fund, will aim to improve and strengthen the occupational integration of young people through apprenticeships and work-linked training as well as broadening access to higher-quality continuing training. Integration efforts will benefit also young people without qualification, notably through the second-chance schools initiative

The new Youth programme (also to be launched in 2000) relates to the employability objective in a broader sense. It aims to improve young people's creativity, their sense of initiative and their aptitude to act independently.

### EU support for research and development

The EU is lagging behind other developed economies in expenditure on research and development. The European Union, the Member States and business all need to work together to allocate more resources to investment in this area. The Fifth Framework Programme (1998-2002) reflects a significant shift in the emphasis of Community research support, putting the accent on

research that will benefit European society as a whole, including the creation and maintenance of new employment opportunities, and on development of expertise through training and mobility action.



Source: Eurostat, OECD

Socio-economic aspects, including employment, are taken into account in all research activities. The Fifth Framework Programme recognises the importance of investment in human resource to ensure the exploitation of the growth potential of new high-tech, high-growth activities, and to secure long-term high-value employment generally. It will fund targeted socio-economic research on themes related to employment, growth, new forms of work etc, linked especially with technological change, options for new development models in Europe and with the implication of societal change on education and training.

In the selection of projects under the Fifth Framework Programme, the Commission will ensure that account is taken of the employment objectives set out in particular in the Employment Guidelines. It should also be noted in this context that special provision is foreseen for SME participation in the Programme and a minimum of 10% of the funding available has been earmarked for this purpose.

#### Infrastructure and investment

Since the 1993 White Paper on Growth, Competitiveness and Employment, the Commission has emphasised the importance of European infrastructure investment for supporting growth, productivity increases and sustainable employment. This was reiterated by the Vienna European Council. Investment decisions are to be guided with a view to establishing a permanent contribution to economic growth and to employment. Short-term employment

impacts of the construction of the infrastructure and the temporary boost of consumption expenditure should be seen as positive side effects. Investment in transport infrastructure can lead to the reduction of development disparities (improving the accessibility of peripheral and less developed regions and thereby cohesion within and between Member States).

Although Member States have already made significant financial efforts to implement the transport TENs, investing about €38 billion in 1996 and 1997, (of which around one third has come from the Community budget and the EIB) faster progress is required. Additional attention must also be given to the promotion and support of high technology initiatives such as the Galileo satellite navigation project, which are both employment-creating in themselves, and also form the basis for more wide-ranging economic and employment development.

In order to support these efforts appropriately, and to increase the leverage effect of Community interventions in this field, the Commission has proposed to significantly increase the total amount of Community assistance under the trans-European transport network budget line. Together with the Structural and Cohesion Fund interventions, this should contribute to noticeably accelerating the implementation of the transport TEN. The EIB also has a crucial role to play here, and the review of progress on TENs requested by the Vienna European Council envisaged enhanced financing arrangements involving the EIB drawing on experience under the Amsterdam Special Action Programme.

Despite the importance of Community-level resources, they can only complement the much larger infrastructure investments made by Member States. In a communication last December<sup>4</sup> on 'Government Investment in the Framework of Economic Strategy', the Commission identified a significant drop in total public investment in the EU, and encouraged efforts by Member States to shift spending in favour of investment. The Council is invited to endorse the recommendations in the communication on public investment and economic strategy, including greater financing of TENs via public-private partnerships, development of EIB instruments and a larger contribution from the Community budget. The Commission will monitor progress in achieving this, on the basis of the stability and convergence programmes submitted by member states.

In this context, the Commission is giving particular attention to measures supporting the development of public-private partnerships. In its proposal to amend the general rules for the granting of Community financial assistance in the field of TENs, for example, it foresees the possibility of risk-capital participation.

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<sup>4</sup> COM(1998)682

## Sustainability of growth and employment

Improvements in the levels of environmental protection, economic efficiency and competitiveness should be mutually reinforcing and supportive of economic and social progress. This requires a balanced approach so that the needs of the current generation can be met while the rights of future generations are preserved. The Kyoto Protocol, once ratified, will commit industrialised countries to legally binding reductions of greenhouse gas emissions, thereby providing a strong impetus to the switch towards clean, energy-saving technologies. Likewise, the Directive concerning integrated pollution prevention and control and other Directives on the prevention and abatement of pollution encourage the development of more sustainable production processes.

Investments in clean and energy-saving technologies, e.g. in urban and rural renovation as well as in recycling and nature conservation will contribute to higher employment rates either through increased competitiveness of companies or through an increasing demand for environmentally sound products and services. The EU must seize the opportunities to obtain a major share of such growing global markets through focusing R&D spending, support structures, and incentives on these products and services. By mid-2000, the Commission will have completed an analysis of the possible employment effects of a switch towards clean technology and production processes. This could lead to a handbook of innovative practices with regard to investment into good environmental management, and related human resource development implications.

In order to launch a dialogue and strengthen the policy development process in this area, the Commission is arranging to bring together Ministries for Labour or Social Affairs, for the Environment and for Industry.

### **4.2. Making markets work better**

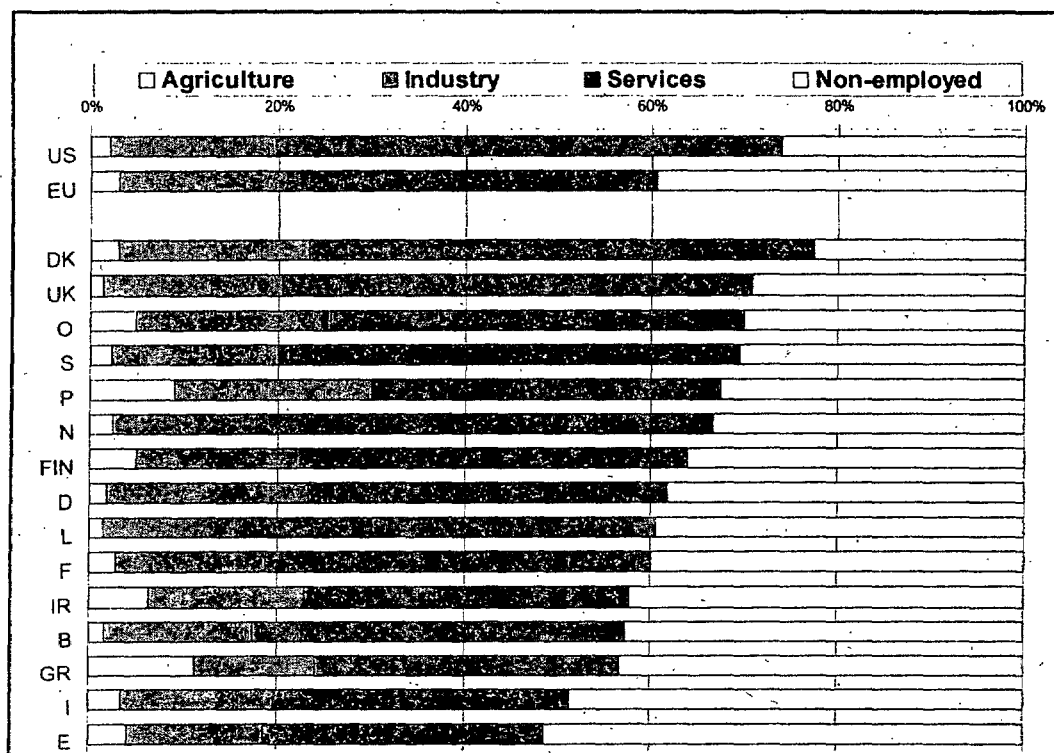
Structural reforms in goods, services and capital markets is essential for job creation as set out in the Cardiff European Council Conclusions, particularly in the context of EMU. Flexibility in product and capital markets is also essential in order to minimize the impact of asymmetric shocks on labour markets in countries or regions in the euro zone. While structural reforms have been introduced in the markets for goods and services during the last ten years (single market, single currency, opening of the telecommunications, energy and transport markets, privatisation of state owned enterprises, the introduction of information technology etc.), there is still a need for structural reforms and improvements to the business environment in order to expand the underdeveloped services sectors in many Member States, and to catch up in the development of the information society. All these tasks require a strong and sustained promotion of entrepreneurship and competitiveness.



## Exploiting the employment potential of services and the Information Society

### Employment Potential of the Services Sector

Employment as percentage of population of working age



Source: Labour Force Survey and US Bureau of Labour Statistics

Over recent years, labour productivity in the EU has continued to rise faster than in the US, allowing the EU to converge towards but not yet reach the US productivity levels. Turning to employment, the picture is radically different. As productivity growth in the EU has been accompanied by capital deepening, the growth of numbers employed has constantly been lower in the EU than in the US and in Japan.

The gap in employment between the EU and the US is not in agriculture and manufacturing, but in the services sector, where the difference in employment rates is 14 percentage points, or 36 million jobs. Employment in the EU is significantly lower than in the US in all services sectors. This applies not only to low-skilled jobs but also for highly-skilled ones. It is not limited to business services, either. The US employs relatively fewer people in public administration, but this is more than offset by higher employment in education, health and social work, and recreational activities.

The adoption of more capital-intensive techniques by European enterprises and their apparent choice not to enter some of the more labour-intensive

sectors, particularly in services, are likely to be the result of the same underlying factors. In the labour market, high non-wage labour costs may have deterred some European enterprises from some labour-intensive activities. In addition, despite the positive effects of the Single Market programme on competition and liberalisation, market integration in many services sectors, notably financial, lags behind that observed for products. Unnecessary rigidities and costs, for instance in the utilities sector or in public procurement, call also for continued efforts to encourage economic efficiency.<sup>5</sup>

Business services play a key role in creating competitive advantages, knowledge and innovation. By facilitating industrial and organisational changes, they contribute to job creation. Other sectors also contribute, as they respond to changes in demand. The recent Report of the Commission's High Level Group on Tourism and Employment, which the Commission will react to in due course, highlights, for example, the contribution of tourism to growth and employment, and the prospects it offers for the creation of upwards of 3.3 million jobs over the next decade. Member States have committed themselves to 'develop framework conditions to fully exploit the employment potential of the services sector' in the Employment Guidelines for 1999.

The potential for job creation of the arts, creative industries and audiovisual sector is significant in view, in particular, of the impact of new technologies. The Community instruments in this field (especially Media II and the Community cultural programmes) will ensure that the positive experiences from the sector contribute to the wider process of change in the world of work.

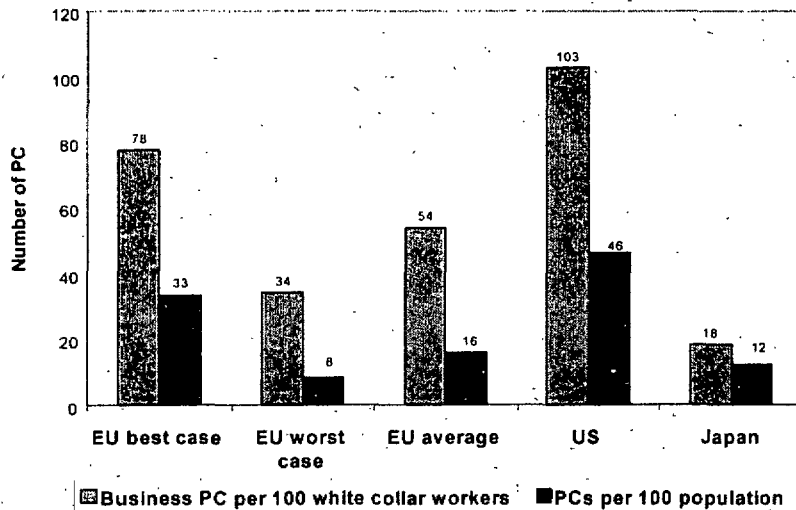
Closely related to the transformation of the EU economies into service economies is the more rapid development of the Information Society - a fundamental societal change which will impact strongly on the nature of employment generally, creating new jobs within the Information Society industries, and in other sectors which use these goods and services.

In its report to the Vienna European Council on Job opportunities in the Information Society, the Commission stressed that urgent action was required in order to develop an enterprise culture, promote organisational change and adaptability, and to boost skills and levels of literacy. A 'skills gap' which has resulted in 500,000 unfilled vacancies at the end of 1998 threatens to grow to over one million by 2002. The Commission is working closely with the Member States on promoting a strategy to exploit the employment potential of the information society, to identify indicators with which to monitor and benchmark progress, and to analyse priorities with a view to achieving progress at the Helsinki European Council.

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<sup>5</sup> COM (1999) 10, p.3 and 14

## Use of Personal Computers



Source: EJTÖ 1998

Given the projected growth of e-commerce and the opportunities this presents for SMEs in particular, the Commission is reinforcing its efforts to promote e-commerce for SMEs. The Commission is also supporting the development of a pan-European market for services that can be provided by electronic means, and has proposed a Directive establishing a coherent legal framework for the development of electronic commerce<sup>6</sup>.

### Monitoring Structural reform and fostering competition as conditions for sustainable employment

The Community has a central role to play in ensuring that the Single Market functions in accordance with a comprehensive set of clear, fair and stable rules. Expanded policy coordination at the EU level, incorporating micro-economic policy issues together with labour market and macro-economic policy issues is essential to achieve our objectives of job creation and macro-economic stability in the context of EMU. The Commission's monitoring of the functioning of Community markets for goods, services and capital is an integral component of its overall policy of removing structural barriers in markets and thus in its employment supporting policy.

The EU market for financial services points to the need for improving micro-economic performance to achieve our major economic and social objectives. Apart from the job creation potential in the sector itself, EU-wide structural reform, aimed at facilitating access to capital markets will lower the cost of capital for investment to the benefit of employment and competitiveness in the

<sup>6</sup> COM (1999) 10, p.14

EU. The Vienna European Council emphasised the importance of the Commission Framework for Action<sup>7</sup> for financial services as an instrument to exploit the growth and job creation potential of the financial sector.

Competition rules play an essential role as a motor for job creation by establishing the conditions for efficient resource allocation in the economy in accordance with common interest. In particular, Community rules relating to State aids serve to prevent distortions of competition hampering the creation of sustainable jobs. The Commission will continue to pursue, and reinforce, its efforts to ensure that State aid - the preponderance of which are accounted for by a few Member States - is given only where it is justified, and that it is in line with the provisions of existing Commission regulations.

The Community's competition policy recognises that targeted measures - particularly those to improve employability - can play an important role in promoting employment. Training of workers and of the unemployed is one of the best examples of such measures. In order to clarify when and how State aid for training will be assessed under the competition rules, the Commission has adopted a framework on training aid. The framework provides that higher aid can be authorised for training which effectively improves the employability of the workers by providing transferable skills or which is directed at the most disadvantaged on the labour market. The Commission is carrying out preparatory work, on the basis of experience with the current framework, on a group exemption for training aid under which this type of aid would no longer need to be notified to the Commission if the conditions of the group exemption were fulfilled.

Guidelines also exist for the granting of State aid with the specific objective of creating or maintaining employment. The Commission will ensure that revised State Aid employment guidelines, currently being prepared, will continue to be favourably disposed towards aid to create new jobs, notably in SMEs, and in areas eligible for regional aid, and to support the creation of jobs for groups of workers in difficulty.

The Commission is deepening its cooperation with the Member States and the social partners in developing a strategy for assessing the more wide-ranging employment effects of market liberalisation including an examination of the employment impact, re-training needs and adjustment measures in different sectors. The energy markets have been identified as pilot areas and work is already underway. The Commission is also giving consideration to an appropriate follow-up to the Report of the High Level Expert Group on the economic and social implications of industrial change as requested by the Vienna European Council.

### Promoting entrepreneurship

Creating an environment conducive to enterprise performance and job creation is a cornerstone of the employment strategy. In response to the

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<sup>7</sup> COM (1998)625

BEST Report the Commission is implementing an Action Plan "Promoting entrepreneurship and competitiveness"<sup>8</sup> which is focused on new approaches in education, training and the workplace environment, access to finance and helping innovation and better public administration. The Commission will press on with its commitment to simplification and better regulation in all policy areas so that they are conducive to employment creation. There is a general need to develop a strong entrepreneurship culture in Europe, which can greatly benefit from exchanges between senior managers and young entrepreneurs. The Commission is examining the possibility of supporting business start-ups through a programme of 'mentoring' and may invite European business organisations and enterprises to contribute to the development of such an initiative.

Other initiatives concern the financing of new businesses. Seed capital funds have great potential for job creation through investing in new or recently created innovative SMEs. However, the seed capital fund industry is still largely underdeveloped in Europe compared to the US. As banks are often hesitant to extend loans to new innovative businesses, the Commission launched in November last a new seed capital action CREA (*Capital Risque pour les Entreprises en phase d'Amorçage*) which focuses on obtaining a higher performance from the funds with regard to the creation of new enterprises and hence of new jobs. CREA's scope also includes the transfer of businesses to new owners, as currently some 35% of transferred businesses fail. Equity invested in the transfer of businesses makes an important contribution to safeguarding jobs. Improved access to capital for new and developing innovative SMEs is provided by the I-TEC and LIFT initiatives.

A network for seed capital funds and the promotion of best practices and training will also be established. In April 1998, the Commission published a communication entitled "Risk Capital: a key to job creation in the European Union", along with an Action Plan, to remove the barriers holding back risk capital markets.

The Commission will continue to implement the measures to be taken at Community level. It will also encourage progress, acting as a facilitator/mediator for measures which are Member States' responsibility and will help improve the analysis and diffuse best practices through concerted actions, spearheading studies and by providing for a discussion for all relevant actors. A progress report on the implementation of the Risk Capital Action Plan at both Community and Member States level is foreseen.

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<sup>8</sup> COM (1998) 550 of 30.09.98

#### **4.3 Modernising social protection and taxation systems.**

In line with the Social Action Programme 1998-2000 and as outlined in the 1999 Annual Economic Report, the Commission will, together with the Member States engage jointly in an evaluation of the progress made in modernising and improving social protection in order to ensure that employment and social protection policies form a coherent policy mix. The Commission will also continue to co-operate with the Member States with a view to achieving more employment-friendly structures of tax and expenditure.

##### The modernisation of social protection systems

Building on the previous Commission Communications "Debate on the future of social protection" of 1995 and "Modernising and improving social protection in the EU" of 1997, as well as the recommendations of the 1999 Broad Economic Policy Guidelines, the Commission will, together with the Member States engage jointly in an evaluation of the progress made in modernising and improving social protection systems in order to ensure that employment and social protection policies form a coherent policy mix.

Discussions to date have focussed on making social protection more employment-friendly; adapting systems to the consequences of an ageing population; adjusting to the new gender balance in working life and reforming the system of social security co-ordination for people moving within the EU.

Ongoing work seeks to analyse the new and evolving context in which social protection systems will operate - defined by EMU, the European employment strategy and future enlargement - with a view to strengthening the co-operation with, and between, Member States on social protection issues, including especially efforts to make social protection systems more employment friendly.

##### Reform of taxation systems

Promoting employment through a more favourable taxation of labour is an important component of the European employment strategy and the 1999 Broad Economic Policy Guidelines recommend a reduction in the overall tax burden on labour in most Member States. As a growing wedge has developed between what workers receive and what firms pay, Member States are being encouraged to take the necessary actions to reverse this trend. The 1999 Employment Guidelines also call on Member States to make their taxation systems more employment friendly. Particular attention is paid to the potential benefit for employment of reduced fiscal pressure on labour and non-wage labour-costs on relatively unskilled and low-paid labour.

The implicit tax rate on employed labour reached nearly 43% in 1996, having increased from a level of 35% in 1980. During the same period the implicit tax rate on other factors of production (mainly capital) diminished from 42 % to 35.6 %. Whereas the general trend in areas other than labour is now towards lower tax rates and broader bases, a sufficient level of effective taxation must be maintained. To ensure budgetary equilibrium a reduction of

the tax burden on employed labour will require either a reduction in public spending or some increase in other areas of taxation.

In the 1999 Joint Employment Report, the Commission will, inter alia, seek to assess the effectiveness of Member State's experiences, on the basis, in particular, of their reports on the implementation of the National Action Plans for employment. This will involve examining the potential of linking cuts in non-wage labour costs to the creation of tax incentives for training, with a view to ensuring that tax systems actively support employability in line with the Employment Guidelines.

The Commission has presented a proposal for a Directive allowing those Member States which so wish to apply, for an experimental three-year period, a reduced VAT rate on certain labour-intensive services (such as repair services on movable tangible property, renovation of buildings and domestic care services). This measure is designed to exploit the potential for job creation in businesses offering local services and could help reintegrate some businesses which have drifted into the black economy. A detailed assessment will be made of the results of this initiative in due course and if the experiment is deemed a success the Commission will consider bringing forward appropriate proposals.

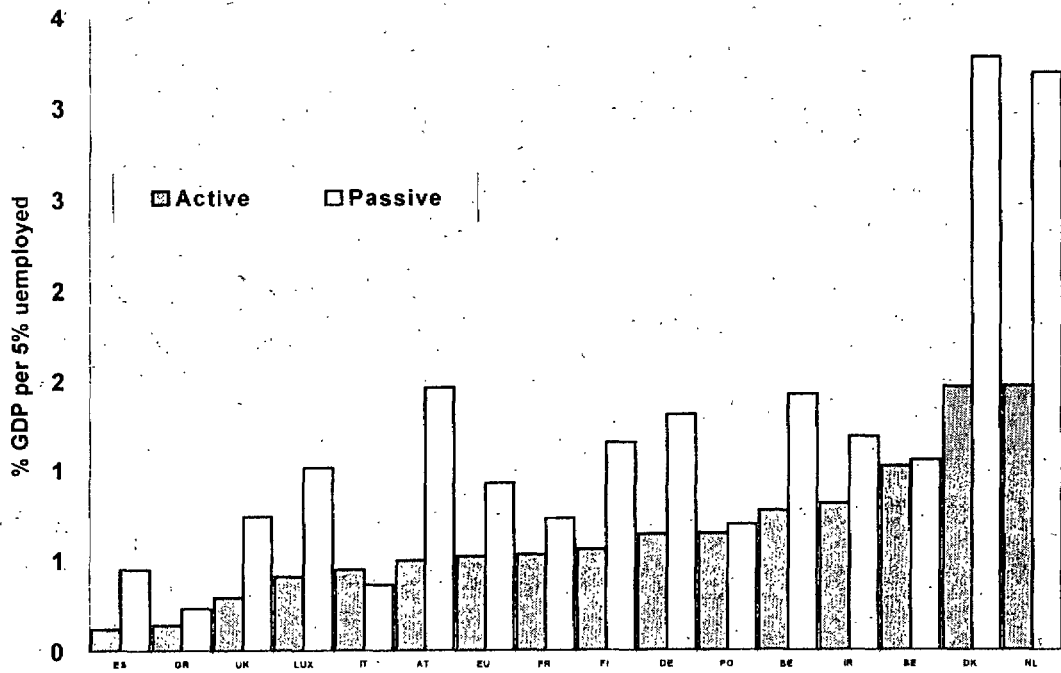
#### Restructuring public expenditure

At the Florence European Council in 1996, the Heads of State and Government endorsed the selective restructuring of public expenditure in order to give priority to active policies for employment and successive Broad Economic Policy Guidelines have identified general principles for such restructuring.

The Commission launched a comprehensive study in 1998 to analyse whether and how the Member States have implemented the agreement concluded at the Florence European Council. The study will provide information on the structure of the public budget in the Member States, and on changes in the structure of public expenditure since 1990. The Commission will analyse the interim study findings this Summer and intends to present a report in due course.

With the help of the information gathered, the Commission intends to indicate how expenditure restructuring by Member States can benefit both social objectives and the promotion of employment. This could form the basis for a debate on policy objectives with the Member States.

## Labour Market Policy Spending, 1997



Note: 1996 data for BE, FR, GR, IR, IT, Lux and PO  
 Source: OECD, Employment Outlook 1998



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