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**Commission Communication**

**Proposal for Guidelines for Member States Employment Policies 1998**

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#### **I. A new ambition**

The European Council in Amsterdam was a watershed for employment policies in the Union. With the adoption of the employment Title, the Heads of State and Government agreed that employment should be considered as a matter of common concern. Building on the existing procedure launched at Essen, the new Treaty reinforces the coordination of national employment policies and foresees the establishment of common guidelines which can in due course lead to recommendations to Member States.

Following the Amsterdam agreement to anticipate the application of the new employment Title, the Commission now presents these guidelines as a framework for discussion at the extraordinary European Council on 20/21 November. The Commission will, on the basis of the Presidency's Conclusions from the Jobs Summit, present a final proposal for adoption by the Council.

It is important to understand the essence of this exercise. The new Treaty has launched a process which enables the Member States to consider the employment situation each year and adopt guidelines for their national employment policies. The latter must, of course, be part of an overall integrated approach which also involves sound macroeconomic policies, a functioning Single Market and the taking of employment into account in all Community policies.

#### **A window of opportunity**

After a period of slow growth, the underlying conditions necessary for sustained growth in output and employment in the EU are now in place: inflation is at an historic low; public finances are in a much sounder position; business profitability has recovered strongly; exports are rising sharply and confidence levels are much improved. Continued macroeconomic stability and the realisation of EMU, as well as the completion of the Single Market in accordance with the Action Plan adopted by the Amsterdam European Council, will underpin and sustain this process.

The current cyclical upturn and these improved prospects must not, however, lead to complacency. Tackling the present levels of unemployment in the EU requires a protracted period of strong growth, but growth alone cannot solve Europe's unemployment problems. These problems result from a continuing inability to create enough new jobs, inadequate workforce skills, failure to adapt to new patterns of work and inequality of opportunities. There is, therefore, a need for continued medium and long-term structural reforms. Experience shows that such reforms are best implemented in a climate of growth and rising demand. Governments should, therefore, consider the improved growth prospects as a window of opportunity for bold structural reforms of their employment systems.

The present Guidelines do not call for increased expenditure but rather a restructuring of expenditure, a reform of benefit and taxation systems and a move from passive income support measures to proactive policies so as to maximise the return on existing budget outlays. In particular, policy changes are needed to enhance the capacity and willingness of enterprises to invest and to give individuals the opportunity to meet the ever-growing demand for new skills and versatility in the face of increasing technological change.

These guidelines are, therefore, aimed at ensuring that the economic recovery is accompanied both by a high level of job creation and a stable macroeconomic environment, and that this favourable combination is sustained. To achieve this objective the Commission believes that Member States will have to strengthen their focus on four main lines of action in their employment policies:

- ◆ *Entrepreneurship;*
- ◆ *Employability;*
- ◆ *Adaptability, and*
- ◆ *Equal opportunities*

These actions must form part of an integrated approach and be drawn together into a comprehensive strategy. This integrated approach offers the best conditions for achieving both the flexibility needed to adjust to changing market conditions and the security of good jobs needed by workers.

***Any real progress at the European level will require detailed action plans by Member States that reflect their own circumstances but which are drawn up and implemented within a common European framework of objectives and guidelines. This process must be interactive, involving both the Member States and the Union. The action plans will need to be updated and monitored on an annual basis.***

### The main challenge

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 order to achieve this, Member States must in the medium term commit themselves to ambitious employment targets and policies while seizing the opportunities afforded by growth and macroeconomic stability. Considering the current favourable outlook for economic growth, the combined efforts of the Member States based on these guidelines, with EU support where appropriate, could result in an increase of the current employment rate of 60.4% to 65% within 5 years and a reduction of the unemployment rate to 7%. This will imply the creation of at least 12 million new jobs.

In this paper, the Commission has sought to focus on actions which, drawing on Member States' experiences and best practices, can be expected to have a real impact and added-value.. Moreover, while recognising that the employment and labour market situation differs between Member States, these guidelines set out some ambitious targets in order to focus the attention of policy-makers at all levels.

### II. Create a new culture of entrepreneurship

Stimulating entrepreneurship means creating a climate where companies can thrive and individuals are encouraged to exploit their creative energies and new ideas to the full, thereby creating new jobs. One third of the jobs in the private sector are in micro-enterprises of less than 10 people, while another third are in enterprises of less than 250 people. Most new jobs are created in these enterprises. If Europe is to succeed in meeting the jobs challenge, it has to create more jobs by stimulating the growth of these enterprises, particularly in the services sector. This requires a new entrepreneurial culture.

The preconditions for this are already in place. Europe is not short of innovative ideas or talented individuals and it is more than capable of competing on the world stage. But Europe has yet to realise its full potential. There is an urgent need for co-ordinated and sustained efforts by all Member States to create a better business

environment and a new entrepreneurial culture capable of transforming this potential into jobs. There is clear evidence that policies which take a comprehensive approach towards entrepreneurship are most successful.

However, the need for entrepreneurship and job creation extends further and experience has shown the significant potential for job creation at local level and within the social economy. These new sources of employment need to be exploited much more decisively, particularly as regards services to people and to local communities, and the not-for-profit sector. Local employment initiatives and Territorial Pacts bringing together all involved at local, regional and national levels, in a broad partnership approach have proved particularly effective. The lessons drawn from these successful experiences need to be promoted as part of a wider local development drive throughout Europe.

Moreover, Europe must harness new technology and innovation for the creation and development of enterprises and the promotion of environmentally sustainable production and consumption patterns. Member States should develop strategies to promote access to the Information Society at all levels, thereby stimulating the use of new technology and the creation of jobs in new and expanding sectors. The Member States must also significantly boost RTD expenditure as a percentage of GDP, thereby raising the European average from 1.9% to 2.5%, so as to match its global competitors, while at the same time encouraging more effective sharing of innovation and new technologies through reinforced cooperation between large, medium and small enterprises.

Further efforts are required, however, to promote a new culture of entrepreneurship in Europe:

**Make it easier to start-up and run businesses** by providing a clear, stable and predictable set of rules. Member States should review and simplify the administrative burdens on SMEs, taking into account the new proposals to be developed by the Business Environment Simplification Task Force.

→ particular attention should be given to reducing significantly the overhead costs for enterprises of hiring an additional worker.

→ the obstacles, especially those within existing social security regimes, to people moving from employment to self-employment and setting up micro-enterprises need to be tackled and existing regulations must be adapted to facilitate easier transition to self-employment.

**Develop the markets for venture capital**, thereby mobilising Europe's wealth behind entrepreneurs and innovators. Member States should examine the specific needs of SMEs as regards financing, principally in the form of equity or guarantee capital, building on EIB initiatives in this area.

→ a pan-European secondary capital market should be established by the year 2000.

**Make the taxation system more employment friendly**. In order to encourage enterprises to create new jobs, Member States must exploit the current favourable macroeconomic climate to finally reverse the average long-term trend towards higher taxes and charges on labour (which have increased from 35% in 1980 to over 42% in 1995). Each Member State should

→ set a target for reducing the tax burden on labour, while maintaining budget neutrality, with a view to achieving substantial progress by the year 2000.

The Commission will support Member States in their efforts to give more attention to entrepreneurship in education and training systems, identify current obstacles and disseminate information on good practice and new initiatives, and will launch an Entrepreneurship in Europe Initiative to drive this process forward.

### III. Creating a new culture of Employability

In its workforce, Europe has great potential for economic growth and prosperity. There are about 18 million unemployed and a further 8-9 million people who would like to work if they thought they could get a job. To turn this potential into reality, a new culture of employability has to be developed. Employability means the capacity for people to be employed : it relates not only to the adequacy of their skills but also incentives and opportunities offered to individuals to seek employment.

The ageing of the Union's workforce and the fast pace of new technology means that Europe is facing an ever-increasing skills gap. Enterprises are looking for new and adequate skills, but most of the unemployed have old skills or no skills. Moreover, many young people leave school early, or without any qualification, while large parts of the labour force have very little access to adult education and training, in particular those with lower skills and non-standard work contracts. Less than 10 per cent of the unemployed are offered training.

But training alone is not enough. There is a clear need to make benefit and taxation systems more employment-friendly by promoting active measures that favour employment or encourage people of working age to acquire new skills and update existing skills. Member States are spending about ECU 200,000 million on their labour market policies but only one third of this is spent on active measures. All social transfers should be examined to see whether they could be used more effectively in promoting rehabilitation, reintegration, training or work experience.

The capacity of Member States' employment services to help jobseekers should be reformed and strengthened in line with best practice, in particular by exploiting new information and communication technologies. Employment offices should also strengthen their role vis-à-vis employers by improving the level of market penetration in order to enable them to fulfill their double mission of providing employers with adequately skilled jobseekers and the job seekers with job opportunities. Passive unemployment support should be regarded as a last resort

• **Tackle long-term and youth unemployment.** Member States should adopt preventive and employability-oriented strategies built on early identification of individual needs and early action and ensure that

⇒ every unemployed adult is offered a new start - in the form of a job, training, retraining, work practice or other employability measure - before reaching twelve months of unemployment.

⇒ every unemployed young person is given such a new start before reaching six months of unemployment.

The combined effect of preventive and reintegration measures can be expected to reduce the rates of long-term and youth unemployment in the Member States by half within 5 years. This will also improve the employment situation of the disabled, many of whom are long-term unemployed.

- **Ease the transition from school to work.** Employment prospects are poor for the 10% of young people who drop out of the school system early and many of the 45% who do not complete upper secondary education. Member States must seek to
  - reduce the numbers dropping out of the education system early by half within five years and reduce progressively the share who do not complete upper secondary level.
  - apprenticeship provides a particularly effective way of equipping young people with relevant skills and Member States should, where necessary, significantly increase participation in apprenticeship training in line with the best performing Member States and improve their systems accordingly.
- **Move from passive to active measures** Benefit and training systems should be reviewed and adapted to ensure that they actively support employability and provide clear incentives for the unemployed to seek and take up work or training opportunities. Each Member State should
  - set a target for the number of people to be transferred from passive income support to active employability-related measures.
  - seek to increase the numbers of unemployed who are offered training from the current EU average of 10% towards the average of the three best performing Member States i.e. above 25%, within 5 years.
  - consider how reducing the cost of hiring less skilled workers through measures such as targeted reductions in non-wage labour costs, can be better linked to measures designed to boost skill levels.
- **Develop a partnership approach.** Both enterprises and the social partners should be involved in joint efforts to invest Europe's wealth in its future by offering the necessary work experience/training positions. The Social Partners are urged to
  - conclude as soon as possible a framework agreement to open workplaces across Europe for training, work practice, traineeships and other forms of employability measures and to agree on the terms and conditions.
  - continue the impressive contribution which they have made over the past five years to the wage moderation which has contributed so much to the improved economic outlook and the improved prospects for new job creation.

In so far as the Structural Funds are concerned, a significant level of investment already goes towards underpinning Member States' efforts to promote higher skills, the activation of labour market policies through targeted measures aimed at preventing long-term unemployment, and at the promotion of entrepreneurship and adaptability. In the next programming period, Member States should seek to further increase the level of structural funding allocated to their human resource development policies and activities. In the short term, Member States should avail of the current mid-term review to reinforce the employment content of their Structural Fund programmes.

The Commission will support the Member States in developing their employment services by organising the exchange of knowledge and experience as well as developing benchmarks for the improvement of their performance. It is essential to remove the remaining obstacles to labour mobility while improving the flow of information on job opportunities and incentives to mobility, and the Commission will shortly present a package of measures to help achieve this objective.

#### **IV. Promote and encourage adaptability**

In Europe, as elsewhere, enterprises are undergoing a period of fundamental restructuring brought on by new technologies and new market conditions. This is visible in the form of mergers and acquisitions, new products and services and greater competition, all of which are affecting individual enterprises and leading to new work patterns. Through this process a new economy is emerging with technologically more advanced enterprises and with a growing services sector, often in the form of new small firms.

The capacity to adapt is decisive for the viability of enterprises, and their ability to seize new opportunities, as well as for employment and job security. However, workers often feel that they have not been adequately informed and consulted, and may see little prospect for a good job and a decent income after restructuring or downsizing. Member States should, therefore, make the adaptability of enterprises, and of those employed in enterprises, one of the main objectives of their employment policies. The Social Partners have a key role to play in this regard.

- **Modernise work organisation** In order to promote the modernisation of work organisation and working patterns:
  - Social Partners should
    - ⇒ negotiate, at the appropriate levels, particularly in economic sectors undergoing major structural change, agreements on work organisation and flexible working arrangements, including where appropriate reductions in working time, with the aim of making enterprises productive and competitive, and achieving the required balance between flexibility and security.
  - Member States should
    - ⇒ put in place a framework for more adaptable forms of contract, taking into account that forms of employment are increasingly diverse. Those in non-standard work should be given greater security and occupational status and those who opt to work reduced hours should not be penalised in terms of career progression or in terms of maintaining social security protection
- **Support adaptability in enterprises.** In order to renew skill levels within enterprises, Member States should
  - ⇒ remove fiscal and other obstacles to the promotion of investment in human resources and offer tax incentives for the development of in-house training. Incentives to workers to avail of training opportunities should also be encouraged.
  - ⇒ re-focus their State Aid policies on upgrading the labour force, the creation of sustainable jobs and efficiently functioning labour markets, while respecting Community state aid provisions.

The Commission will assist this process by promoting its policies for a new organisation of work, and information and consultation of workers in respect of decisions affecting them as well as bringing forward clear guidelines concerning training aid.

## **V. Strengthen the policies for equal opportunities**

There are sound economic and social reasons for a reinforcement of the efforts of Member States to promote equal opportunities in the labour market. While the employment situation of women has improved over recent decades, unemployment is higher for women than for men (12.6% as against 9.7%) and their rate of participation in work is lower (50.2% as against 70.4%). Within work, women are over-represented in some sectors and professions and under-represented in others. These labour market rigidities, which impede Europe's capacity for growth and job creation, must be tackled.

As the Commission's Demography Reports have outlined, the working age population is now growing much slower than it did during the last 20 years and over the next decade it will start to decline. In the longer term, therefore, the growth in employment necessary to sustain our living standards and the European social model is critically dependent on an increase in the participation of women in the labour force.

- **Tackle gender gaps:** Member States should translate their commitment to equality of opportunity into increased employment rates for women and breaking down gender segregation, and
  - make consistent efforts to reduce the gap in unemployment rates between women and men by actively supporting the increased employment of women.
- **Reconcile work and family life:** Policies on career breaks, parental leave and part-time work are of particular importance to women. Implementation of the various Directives and social partner agreements in this area should be accelerated and monitored. There must be an adequate provision of good quality care for children and other dependents in order to support women's entry and continued participation in the labour market. Member States should
  - seek to raise levels of care provision, using the standards of the best performing Member States as a benchmark.
- **Facilitate return to work:** Specific attention should be given to women considering a return to the paid workforce after an absence. They may face problems of poor employability due to outmoded skills and may have difficulty in accessing training opportunities if they have not been registered as "jobseekers". Moreover, taxation and benefit systems may interact to reduce financial incentives to seek work. Member States should address these and other obstacles.

Above all, Member States should, in developing, implementing and reporting on these guidelines, take into account the particular labour market situation of women. Specific strategies to promote entrepreneurship among women, to improve their employability and adaptability should be developed.

## **VI. The Implementation of the Guidelines**

Member States should, from 1998 onwards, report on the implementation of these guidelines; they should highlight their best practices and their impact on employment for examination by the Commission and the Council. The Commission will present a proposal to ensure an agreed comparable database in Member States, and agreed indicators, in order to monitor the implementation of these guidelines.

In preparing the 1999 guidelines, the Commission will examine how each Member State has taken the current guidelines into account in implementing their employment policies and present its assessment in Autumn 1998 for adoption by the European Council at the end of 1998.



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