

**COMMISSION COMMUNICATION ON TAKING STOCK OF FIVE YEARS OF THE
EUROPEAN EMPLOYMENT STRATEGY**

UNICE POSITION

Executive summary

UNICE broadly supports the European employment strategy (EES). However, over time, the employment guidelines have become increasingly complex. The review is a crucial opportunity to refocus and improve the strategy.

According to UNICE, the four pillars of the EES have been unevenly implemented with a strong bias towards the labour supply and insufficient attention paid to the demand side (job creation). Member States have been slow in promoting measures to encourage job creation and reluctant to set targets for reduction of the tax burden on labour. Implementation of the entrepreneurship pillar has been the main weakness of EES that needs to be redressed in the future.

Over the years, progress has been achieved in the involvement of social partners through tripartite consultation, but in some countries this consultation should be more thorough and timely. Social partners will continue to contribute to the implementation of the guidelines through their autonomous bilateral social dialogue but the future guidelines should avoid formulations which give instructions to social partners. Their autonomy should be respected.

The next guidelines should concentrate on medium-term objectives and policy outcomes and not include prescriptive details on measures and methods of implementation. They should focus on the ten priority areas below. Reporting by Member States should concentrate on aspects where further progress is needed. Member States should take better account of the recommendations made to them.

On the demand side, the three priorities are: promoting job creation, reducing the tax burden on labour and indirect labour costs and combating undeclared work. In order to achieve these aims, fostering entrepreneurship is essential.

On the supply side, UNICE highlights four priorities: putting in place lifelong learning strategies, reinserting the unemployed in the labour market through activation measures, preventing and combating unemployment traps through reforms of tax and benefit systems that make work pay, and promoting active ageing.

In order to better match supply and demand, it is necessary to promote flexible forms of work, mobility and equal opportunities.

Last but not least, UNICE welcomes the Commission's Communication on streamlining the annual economic and employment policy coordination cycles and the synchronisation of calendars proposed in the Communication. Within the new three-year cycle, it will be as important as ever to ensure that the employment guidelines are fully in line with the Broad Economic Policy Guidelines.

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I. Introduction

1. UNICE has noted the Commission Communication on the evaluation of the European employment strategy (EES) [COM(2002) 416 final].
2. The communication
 - reviews the experience of five years of EES on the basis of overall EU labour market performance assessment and evaluates the policies implemented by the Member States under the EES;
 - points out the main issues which will have to be addressed when re-designing the strategy for the future.
3. It identifies four main issues for reform of EES:
 - need to set clear objectives in response to the policy challenges;
 - need to simplify the policy guidelines without undermining their effectiveness;
 - need to improve governance and partnership in execution of the strategy;
 - need to ensure consistency and complementarity with respect to other relevant EU processes, notably the Broad Economic Policy Guidelines.

II. Comments

A. On the main conclusions of the impact evaluation of EES

4. UNICE broadly supports the method and the content of EES. It believes EES plays an essential role in achieving the Lisbon objectives. However, over time, the employment guidelines have become increasingly complex and numerous and essential elements for sound employment policies have become hidden in details or been put on the same level as points of lesser importance. The current review is a crucial opportunity to regain the sense of focus and to improve the strategy on the basis of the assessment of the past five years in order to strengthen its role and to enhance its performance.
5. According to UNICE, over the years of EES there has been an unbalanced implementation of its four pillars with a strong bias towards the supply side (labour offer) and insufficient attention paid to the demand side (job creation). Member States have concentrated on less controversial actions (such as activation measures) and lagged in implementing the guidelines under the entrepreneurship pillar. They have been slow in promoting measures to encourage job creation and reluctant to set targets for gradually reducing the tax

burden on labour. In UNICE's view the lack of progress on implementation of the entrepreneurship pillar has been the main weakness of EES that needs to be redressed in the future and delays in actual implementation must be closed.

6. Progress in **fostering entrepreneurship is essential** for the success of the strategy. UNICE believes that the invitation to **set appropriate targets for a reduction in the tax burden on labour** should be strengthened. Member States could be encouraged to reach the average level of the three best-performing countries. Moreover, Member States should encourage an increase in the number of enterprises created each year. An improvement in the survival rate of new enterprises should also be targeted.
7. Given the above analysis, UNICE is concerned to see that the Commission's conclusions in the section on implementation of the entrepreneurship pillar in the Communication are too optimistic, do not give a correct picture of what has happened and do not fully reflect the evaluation in the background documents¹ used for drafting the above-mentioned section.
8. For example, on the one hand the Commission points out in that section that the rising trend in the overall tax burden on labour has been reversed and that there was a reduction of around 2% over the period 1996-2001, which it considers a significant result. On the other hand, it concludes that Member States have failed to set quantified national targets for reducing the tax burden on labour as requested by the employment guidelines. Another example: whereas it quotes Italy, Finland and Sweden among the countries where the most significant reductions were observed, it names the same countries as having the highest tax rates in the EU. Moreover, it explains that such a reduction is to a large extent the result of tax reductions on low-paid labour. Furthermore, in some Member States the reduction in labour taxation was compensated by the introduction or the increase of other taxes such as energy taxes. The section also fails to draw a clear picture of the reduction in tax pressure on labour, for instance by providing a table containing the evolution of the level of taxes on labour in the Member States.
9. The Communication briefly mentions the increasing differences in productivity between the US and EU as a considerable structural problem and challenge that persist despite the positive outcomes of a successful mix of employment and stability-oriented policies. The Commission simply underlines that the positive link between job quality and productivity will have to be exploited to bridge this gap.
10. In UNICE's view, the policies pursued under the EES should contribute more actively to bridging the productivity gap, not only by promoting job quality, but also by securing the right skills, fostering entrepreneurship, facilitating matching labour supply and demand, etc.

¹ Impact evaluation of the EES, background paper on "Tax-benefit reforms and taxation on labour" (themes 2 and 7 of call for proposals for national projects VP/2001/011) and background paper on "Entrepreneurship" (theme 5)

B. On involvement of the social partners in EES

11. With respect to the involvement of social partners in the strategy, a distinction should be made between the tripartite concertation and the autonomous bilateral social dialogue.
12. Regarding the **tripartite concertation**, UNICE would like to stress that, over the years, progress has been achieved in the involvement of social partners in the *definition and preparation* of national action plans for employment. However, there are cases where social partners should be consulted more thoroughly. They should be consulted in a horizontal manner, throughout the process through appropriate tripartite concertation in accordance with national traditions.
13. Social partners' contribute to the *implementation* of guidelines at European and national level through the initiatives taken in their autonomous **bilateral social dialogue**. Three main aspects have to be taken into account in this respect:
 - Social partners' autonomy should be respected. The guidelines, as formulated currently, seem to prescribe instructions to European and national social partners.
 - The method chosen by governments is not adapted to the social partners. Except for the more diverse systems in the federal countries, government actions are centralised (top-down) as a matter of course. On the contrary, social partners' actions are by nature bottom-up. In some countries, due to the decentralised and autonomous nature of the agreements concluded at various levels, it is difficult to collect at central level all the social partners' initiatives on aspects of work organisation.
 - Collective agreements at national level usually take more than one year and therefore the absence of agreements in one year does not mean that social partners are "inactive".
14. The Commission argues that visibility of the social partners' contribution to the implementation of the guidelines could be greater and that the invitation made to social partners to set up their own process of implementation has not yet materialised. UNICE accepts that social partner contributions should be given better visibility but does not believe that this should be done by setting up a parallel process of the social partners to implement the guidelines or by expecting the social partners to develop their own statistical data bases.
15. Social partners will continue to contribute through their autonomous bilateral social dialogue at European level and in the Member States according to national practices, traditions and priorities to the implementation of the guidelines or other aspects relevant to the labour markets, which are in their responsibility. The future guidelines should avoid any formulations which might seem to be giving instructions to social partners.

C. On issues for the debate on the future of the European Employment Strategy

C.1. On the future content of the strategy

16. In European employers' view, the number of **guidelines should focus on the ten priority issues in section III**. The overlaps between the horizontal objectives and the guidelines or between guidelines should be removed. The

guidelines and the quantitative targets should be **strategic**, meaning that they should concentrate on objectives and policy outcomes and should avoid prescriptive details on how the measures should be implemented or on the quantity or the volume of the measures to be taken. In order to focus on implementation and to achieve stability, the guidelines should have a **medium-term perspective**, namely they should be elaborated for a period of at least three years. **Reporting** by Member States should concentrate on the implementation of those guidelines or aspects of the guidelines where **progress** is needed in that given Member State.

17. UNICE therefore shares the Commission's analysis according to which the hierarchy of priorities in the Employment Guidelines has become blurred and the pillars have lost part of their intrinsic coherence. It also strongly supports the Commission's call for simplification of the guidelines, for more focus on implementation, rather than on the annual elaboration of the guidelines, and for greater stability in the guidelines.
18. UNICE is also concerned that so far many Member States have not taken sufficient account of the recommendations made to them. In order to increase the impact of EES, it is important that **Member States pay more attention to the recommendations** made to them.
19. Another key aspect, which should be kept in mind, is that the new strategy should rely on good comparable statistical data and indicators in order to ensure more rigorous progress monitoring and evaluation of the efficiency of the policy measures. In the EES evaluation, a lack of reliable indicators, evaluation and monitoring of policy measures has been identified in several areas: entrepreneurship and job creation, activation measures, fighting undeclared work, equal opportunities. UNICE urges therefore that in the context of the future strategy the development of statistics and indicators to monitor the impact of measures is considered a priority.

C.2. On the alignment of the EES timeframe with the Lisbon strategy deadline of 2010

20. The EES has a crucial role to play in achieving the 2010 EU's targets and objectives of the Lisbon strategy. In order to help focus and monitor the priorities of the employment strategy alongside the Lisbon objectives, the EES should cover the same time period as the Lisbon strategy.
21. UNICE therefore agrees with the Commission's proposal that the timeframe for the next strategy is aligned on the timeframe of the Lisbon strategy, namely that the next employment strategy covers the period up to 2010.

C.3. On coordination and streamlining of the relevant EU processes

22. In order to ensure gradual convergence towards commonly agreed objectives and targets, a mechanism of policy coordination has been established at the EU level in various fields. Such policy coordination has resulted in various processes of different kinds: the EES and the economic coordination as foreseen in the Treaty, the Cardiff process on structural reforms and the open method of coordination in the field of social inclusion, pensions and education and training.

Such a multiplication of processes can damage efficiency. There is therefore an urgent need to concentrate efforts on real priorities, to **simplify and streamline the existing processes** and to **ensure coherence** between them.

23. UNICE believes that lifelong learning is a key driver for achieving the Lisbon goals. This should be clearly reflected in the content and architecture of the cooperation process at European level. Good cooperation is required between authorities in charge of employment and those in charge of education and training at both national and European levels. The links between the two processes should be clearer.
24. Moreover, it should be borne in mind that the future strategy will also have to be adopted and implemented by the **new Member States**. Streamlining and keeping the focus is therefore all the more important.
25. UNICE welcomes the Commission's Communication on streamlining the annual economic and employment policy coordination cycles published in September 2002. It believes that the proposed synchronisation of calendars could help coordinate the policy actions in these two fields and could increase the synergy between the processes. UNICE also welcomes the proposals for a medium-term perspective of the guidelines and for more focus on implementation rather than on policy formulation. Nevertheless, it would like to stress that, within the new three-year cycle, it will be as important as ever to ensure that the employment guidelines are fully in line with the Broad Economic Policy Guidelines

III. UNICE's proposals for the elaboration of the next employment guidelines

Full employment and the targets set at the Lisbon European Council (70% for the overall employment rate and 60% for women by 2010) and at the Stockholm European Council (intermediate targets of 67% for the overall employment rate and 57% for women by 2005 and a new target of 50% employment rate for older workers by 2010) would be the **overarching long-term goal** of the strategy.

In UNICE's view, the guidelines should focus on the following **ten priority issues**.

On the labour demand side

1. Job creation through fostering entrepreneurship and enterprise creation

Promoting job creation by fostering entrepreneurship and enterprise creation is essential for the success of the EES. Despite this fact, the lack of progress on implementation of the entrepreneurship pillar has been the main weakness of EES. Member States should urgently close this delivery gap. Promoting a regulatory, administrative and tax framework favourable to the creation and development of companies is essential. Member States should encourage an increase in the number of enterprises created each year. An improvement in the survival rate of new enterprises should also be targeted.

2. Reduction of tax burden on labour

Over the years of EES, there has been a constant lack of progress in reducing the tax burden on labour. Member States were reluctant to set targets in this respect and the tax reductions concentrated on the unskilled and low-paid labour. Redressing this lack of progress should be a top priority in the next employment guidelines. Firstly, reversing the rising trend in the overall tax burden on labour is vital in order to promote employment creation. Member States should set targets for the reduction of the tax burden on labour and on non-wage labour costs as foreseen in previous employment guidelines and as repeatedly called for by the recommendations made to them. Secondly, high fiscal pressure does not concern only the lower end of the income scale. Moreover, the EU set itself as objective becoming the most competitive economy in the world. Focusing measures only on the low-skilled and low earners is contrary to this objective. Finally, in UNICE's view the reduction of the overall tax burden on labour and indirect labour costs must be achieved through a reduction in public expenditure and not through offsetting reductions by increases in other taxes on business, such as energy taxes which will penalise economic growth and competitiveness.

3. Combating undeclared work

UNICE strongly condemns undeclared work as it creates unfair competition vis-à-vis law-abiding companies and citizens and constitutes a loss in tax revenue and social security contributions. The most effective policy action to combat undeclared work consists of a policy mix of preventive action and sanctions: lowering the tax burden on labour and combating poverty traps, simplification of procedures and legislation and removal of excessive bureaucracy, increased public awareness of the possible negative effects of undeclared work and the shadow economy, exchange of information and increased communication, co-operation between authorities; surveillance and sanctions. The significant lack of reliable data on the effectiveness of measures to reduce undeclared work also needs to be addressed.

On the labour supply side

4. Equipping people with the skills relevant to the labour market by promoting lifelong learning

Unemployment is the main problem in the EU and at the same time companies are faced with a widening skills gap. The ageing of the population will aggravate the situation in the coming years (as the process of skills renewal through the entry of young people into the labour market decreases, while the pace of technological change increases). Therefore, promoting lifelong learning is a responsibility to be shared by society in general. Education and training systems need to be improved to meet these challenges. Structural changes affecting today's economies have increased the importance of up-to-date qualifications and competences. This requires defining, setting-up and implementing fully-fledged lifelong learning strategies that should aim at promoting conditions that will motivate not only companies but also individuals, who also have a responsibility for their own employability.

5. Reinsertion in the labour market of the unemployed through activation measures

Enhancing employability of the unemployed through acquisition and upgrading of skills, including IT and communication skills, vocational training, work practice,

vocational guidance and counselling, etc., is key to tackling unemployment. In order to avoid purely quantitative implementation resulting in a “merry-go-round” from unemployment to training, it is essential to seek effective integration into the labour market and to use the resources available efficiently.

6. Preventing and combating unemployment traps through tax-benefit reforms

The incentive to take up work depends on the income resulting from the combined effect of taxes and benefits when a person is out of work (by comparison with a person in work). Progress in strengthening work incentives and making work pay in various Member States has been uneven and fragmented. The next guidelines should draw the lessons from this lack of progress and invite Member States to implement employment-friendly reforms of tax and benefits systems.

7. Promoting active ageing

Given the magnitude of the ageing challenge in the next decades, promoting policies for active ageing is essential. There is clearly a need in most Member States to take urgent measures to keep older workers in the labour market. Despite reforms, early exit from the labour market is still too easy and staying longer on the labour market is not sufficiently rewarded. Discouraging early exit from the labour market and removing disincentives to stay on the labour market through tax and benefits reform should therefore be top priorities. Gradual retirement should be better promoted and allowed for. Finally, maintaining and upgrading the skills of older workers through adequate access to training and learning is also part of the answer. In order to achieve the aim of promoting active ageing, framework conditions should be adapted so as to encourage companies to employ older workers.

Matching supply and demand

8. Promote flexible forms of work

Flexibility is the key factor to deal with the impact of rapid technological, economic and societal changes on labour markets. By promoting flexible working arrangements, various categories of persons, such as women, older workers, unemployed and especially long-term unemployed, could be brought into and/or kept on the labour markets. Flexibility can help find solutions to both employees' and companies' needs and therefore matching labour supply and demand. The next guidelines should rely on appropriate indicators and statistics to analyse the use of such forms of work and to evaluate their impact on the labour market (integration of those who take up employment under flexible forms of work, companies' competitiveness, etc.).

9. Promote mobility

Currently, mobility in the EU is very low. Increased mobility would contribute to employment growth as it will help match the demand for and supply of labour and there will be a bigger pool of labour to be drawn upon by companies and of job offers for employees. Promoting occupational and geographical mobility within the Member States should be explicitly targeted in the next guidelines. In the same time, national measures should be complemented by policy actions and instruments aimed at enhancing intra-EU geographical and professional mobility. Indicators and statistics to

monitor progress and evaluate measures with respect to mobility in both Member States and across the EU should be developed.

10. Promote equal opportunities

Pursuing and implementing equal opportunities policy measures for access to and participation in the labour market of target groups (such as women, young people, older workers) and disadvantaged groups (disabled, ethnic minorities, etc.) would result in increasing the number of people working and implicitly in a more inclusive labour market and society. Progress in this is likely to make a significant contribution to raising employment rates as it helps release a great deal of untapped potential on the labour supply side. Mobilisation of various actors beyond companies, in society in general, is necessary to achieve this aim.

IV. Conclusion

26. To conclude, UNICE broadly supports the method and the content of EES. It believes EES plays an essential role in achieving the Lisbon objectives. In order to regain the sense of focus and to improve the strategy's performance, the following recommendations should be implemented:

- the lack of progress on implementation of the entrepreneurship pillar should be urgently redressed and delays in actual implementation closed;
- the guidelines and the targets should be strategic, should concentrate on objectives and policy outcomes and should not include prescriptive details on the quantity or the volume of the measures or on methods of implementation; they should concentrate on the ten priority areas in section III and should have a medium-term perspective.
- annual reporting by Member States should concentrate on the implementation of those guidelines or aspects of the guidelines where progress is needed in that given Member State;
- simplification, streamlining and coordination of the existing processes is urgent; in the new framework of the synchronisation of calendars of the employment and economic processes, it will be as important as ever to ensure that the employment guidelines are fully in line with the Broad Economic Policy Guidelines;
- bearing in mind that the future strategy will also have to be adopted and implemented by the new Member States, streamlining and keeping the focus is all the more important.

27. In UNICE's view the guidelines should focus on the following **10 priority issues**.

On the demand side

1. promoting job creation
2. reducing of tax burden on labour and indirect labour costs
3. combating undeclared work

On the supply side

4. putting in place lifelong learning strategies
5. reinserting the unemployed in the labour market through activation measures
6. preventing and combating unemployment traps

7. promoting active ageing

Matching supply and demand

8. promoting flexible forms of work

9. promoting mobility

10. promoting equal opportunities.
