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**Subject: Joint Employment Report 2006/2007**

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Delegations will find attached the Joint Employment Report 2006/2007, as adopted by the Council (EPSCO) at its session on 22 February 2007, to be forwarded to the European Council in view of its meeting on 8-9 March 2007.

**JOINT EMPLOYMENT REPORT 2006/2007**

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## **1. Summary: A better implementation of employment policies**

The Growth and Jobs Strategy reflects the growing inter-dependence of our economies and recognition of the need to work closely together across the three domains of the strategy; macroeconomic, microeconomic and employment policies. The positive effects of successful reform which boost employment will also have a positive impact on growth. Employment is increasing and unemployment falling. The Lisbon Strategy for growth and jobs is showing results. Labour market reforms are bearing fruit although further efforts are needed to reach the European employment targets. Also productivity growth and quality of jobs remain below Europe's needs. The responsiveness of European labour markets to the challenges of globalisation and ageing remain critical issues. The implementation reports indicate that of the three European Employment Strategy priorities, attracting and retaining more people in employment sees most policy implementation. Implementation of policies to increase investment in human capital through better education and skills is also progressing. Policy implementation to improve the adaptability of workers and enterprises is lagging behind.

### **1.1 Attracting and retaining more people in employment, increasing labour supply and modernising social protection**

Efforts have been intensified to reach out to groups and individuals at the margins of the labour market, and society<sup>1</sup>. Member States are devoting more attention to labour market reforms that have an impact on poverty and exclusion and which encourage longer working lives. They are converging in efforts to offer active support to the most disadvantaged through a balanced approach combining personalised labour market support, high quality social services and adequate level of minimum income.

In response to the 2006 Spring European Council's request, more attention has been paid to an integrated lifecycle approach to work. Despite this, policies for young people, women and older workers are still often treated separately.

Youth unemployment is a severe problem in many Member States and labour market segmentation to the disadvantage of the young is increasing. A number of measures are being implemented both to increase employability and provide incentives for employers to hire young people. Many Member States are still far away from the target of a "new start" for young unemployed within 6 months by 2007 and 4 months by 2010.

Through the European Pact for Gender Equality, Member States were asked to include a perspective of gender equality when reporting on implementation. In spite of this, the promotion of female employment and systematic gender mainstreaming of policies are rarely emphasised. There is some progress in many Member States to develop childcare facilities and encourage employers to be more family friendly. Affordable and accessible quality childcare provision must be expanded to allow both parents to work, to better reconcile work and family life for both and to reduce high levels of child poverty.

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<sup>1</sup> This is also shown in the National Reports on strategies for social protection and social inclusion.

An increasing number of old Member States are opening their labour markets to citizens of the new Member States. Some are implementing measures targeted at immigrants or minorities. The unemployment gaps between EU and non EU nationals are increasing, especially where large gaps already existed. Labour market integration of legal migrants should become a more explicit dimension of employment policies.

Member States continue to implement reforms to encourage older workers to stay longer in working life. There is a shared will to progress on adequacy and sustainability within pension reform. It is crucial to create real job opportunities for older workers. This would complement the strengthening of incentives to work longer as a condition for ensuring future adequacy of retirement provisions and to avoid additional pressures on system sustainability. Equally, Member States increasingly recognise that improving health and the access to medical and preventive care and rehabilitation are key dimensions of a strategy to increase labour supply in a sustainable manner.

## **1.2 Improve adaptability of workers and enterprises**

The implementation reports show the weakest policy implementation in this area despite the increasing need for adaptable labour markets. Rapid technological progress and increased competition stemming from globalisation require increased flexibility. Governments have tended to focus on easing labour market regulation for new entrants to facilitate more contractual diversity, without reforming legislation for existing contracts and ensuring transitions between types of contracts and opportunities to progress. Labour market segmentation and undeclared work remain important problems in many Member States.

A more comprehensive approach is necessary to combine flexibility and security in a more integrated approach. Flexicurity policies should attempt at going beyond the old trade-off where more flexibility meant less security. The aim is for workers to exchange traditional security in the job for security in the market, brought about by efficient and cost-effective active labour market policies (ALMPs), and adequate levels of social protection to tide them over between jobs. Flexicurity covers both external flexicurity via the labour market, and internal flexicurity within individual companies. Flexicurity policies should aim at raising productivity and quality of jobs.

There is recognition that modernising social protection systems, covering all major social risks independent of the nature of employment and labour contract, and removing disincentives to work, is crucial for improving flexicurity. Progress is in some respects slow.

Member States could pursue a range of policy pathways towards greater flexicurity with packages of measures reflecting different starting points. Such packages would help promote a climate of trust with all actors accepting responsibility for relevant action. Flexicurity pathways would see Member States combining policies covering contractual arrangements, ALMPs, lifelong learning and social security systems that promote mobility and provide adequate income support.

### **1.3 Increase investment in human capital through better education and skills**

Many Member States are developing policies to increase investment in education and skills. Implementation is progressing, but often in a piecemeal way. Only a minority of Member States have a comprehensive strategy to invest in human capital throughout the life cycle.

Almost all Member States report on measures addressing the low skilled, in particular the prevention of early school-leaving and compensatory measures within adult learning. Progress is however slow in reducing early school leaving; in 2005, 6 million young people left education prematurely. Many Member States need to increase their efforts if the EU is to reach its 2010 target of 85% of 22 year olds in the EU having completed at least upper secondary education. Since 2000 the figure has moved little from around 77%.

The situation is also worrying in terms of adult participation in lifelong learning. In 20 of the 25 Member States the participation rates remained virtually stable or actually fell! Participation is particularly low in Southern European countries and most of the new Member States. Older workers continue to see very low rates throughout the EU.

Much of the focus is on structural reforms to education and on improving the link with the labour market. There is little information provided on an explicit commitment to increase investment in human capital. A breakthrough in the level of this investment is essential if we are to generate sufficiently adaptable economies with high productivity growth. Member States need, therefore, to develop the appropriate incentives and cost sharing mechanisms for enterprises, public authorities and individuals.

## **2. Progress in achieving the objectives of the European Employment Strategy**

Member States' policies should foster full employment, quality and productivity at work and social and territorial cohesion. These objectives, together with good governance, frame the European Employment Strategy.

### **2.1 Full Employment**

Employment growth picked up in 2005 to 0.8%, the largest increase since 2001. As a result, the employment rate increased to 63.8%. The rise in the employment rate was driven by increases within both gender groups. Employment grew by 1.1% for women and by 0.6% for men (after three years of virtual stagnation). The employment gender gap further narrowed to 15 percentage points, but remains too large. Progress has been slower in full-time equivalents (21.4 pp in 2005 compared to 21.7pp in 2004).

Unemployment fell from 9.1% in 2004 to 8.8% in 2005, with long-term unemployment falling for the first time since 2002, and standing at 3.9%, compared with 4.1% in the previous year. Both women and men experienced the decrease; the unemployment rate fell to 9.9% for women and 7.9% for men.

There were further increases in employment for older workers, with the employment rate increasing from 41% in 2004 to 42.5% in 2005. In contrast, many Member States have seen the labour market situation for the young stagnate. At 18.3%, youth unemployment is about twice the overall rate.

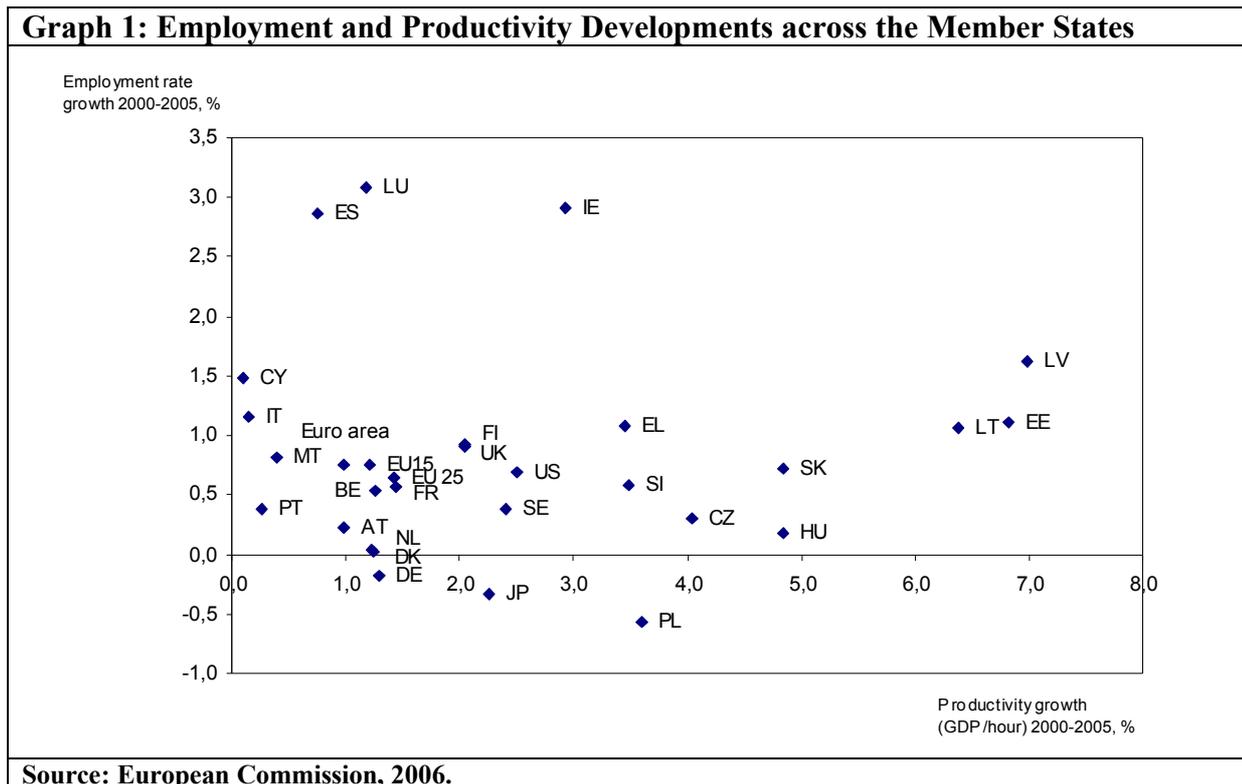
Despite some progress over the years, (overall employment has increased by 15.3 million since 1997) the employment rate remains 6.7 pp or around 20 million jobs below the 2010 target. Even if employment increases, as currently projected, by 7 million by 2008, there will still be a gap of some 13 million jobs to bridge. Whilst older people's employment rates have risen more rapidly, they still remain 8.5 pp below their respective 2010 targets, Female employment rates have also risen fast and are on track to reach the target (3.7pp below 60%).

### **2.2 Quality and productivity at work**

#### *Productivity*

Globalisation has seen a massive increase in the effective labour supply shifting capital/labour ratios considerably. Technological advances have become more prominent. To be competitive and ensure sustainable growth productivity must increase. However, labour productivity growth has been decreasing in the EU as a whole since the eighties. Average productivity growth (average annual change in GDP per hour) fell from around 2% a year in the 1980s and the second half of the 1990s, to 1% in the 1996-2001 period and to below 1% between 2001 and 2003. The situation improved in 2004 (1.9%) but has again slipped below 1% (0.9%) in 2005. This compares unfavourably with the US (1.8%) and Japan (2.2%).

Addressing this productivity slowdown will be a key challenge in ensuring further growth and jobs. While in the short term trade-offs between employment and productivity can occur there is a clear positive link in the long term between the two. A high level of productivity appears to be a necessary condition for sustainable employment growth. Graph 1 makes a comparison of EU countries in terms of their average growth in labour productivity growth per hour and growth in employment for the 2000-2005 period.



In the CZ, HU, SK, LT, EE, LV and PL high growth rates in productivity growth between 2000 and 2005 were accompanied by low growth rates in employment (or negative in the case of PL). Industrial restructuring that took place in these countries had the effect of both increasing productivity and shedding jobs. By contrast, in ES and CY, increasing employment was combined with below-average productivity growth. The position of many other Member States is characterised by relatively low productivity growth combined with relatively low employment growth. Only IE has succeeded in achieving high growth rates in both employment and productivity.

### *Quality at work*

Progress in the quest to increase quality at work again remains mixed<sup>2</sup> and the implementation of policies to further this aim limited. 2005 saw further improvements in youth education levels. Nevertheless, there is again limited progress in other elements of quality at work, especially the transitions from insecure to secure jobs, and in reducing labour market segmentation. A worry is that many Member States saw adult participation in lifelong learning fall.

<sup>2</sup> For details of the 10 dimensions of quality at work see: Improving quality in work: a review of recent progress, COM (2003) 728 of 26.11.2003.

## 2.3 Social and territorial cohesion

The Lisbon strategy calls for economic and labour market reforms to contribute to strengthening social cohesion and for social policies to help economic and employment growth. The *National Reports on strategies for social protection and social inclusion* and the Implementation Reports both show that Member States are converging in their efforts to reduce child poverty and to strengthen the active inclusion of the most disadvantaged groups through a balanced approach.

Social protection reforms should improve, where required, the adequacy of benefits and the sustainability of public finances. Modernising pension systems can help support employment and economic growth through active ageing and a decrease in the fiscal burden of the new generations, and therefore help secure future pensions. With the improved economic outlook, the challenge is to ensure that growth and job creation translate into greater social cohesion. Spending on social policies is likely to increase in the coming years to meet growing needs. But looking together at the EU objectives of accessibility, adequacy, quality and sustainability when implementing reforms will help Member States improve the quality of their policies and of the spending which supports them.

Regional employment disparities slightly narrowed in 2005. However regional disparities remain widespread, with very high rates of unemployment in many regions. Regions with low levels of employment also tend to be the ones with lower productivity levels. Rises in labour productivity in regions with low overall levels of productivity have not yet been followed by substantial increases in employment

## 3. Implementing the priorities for action

To achieve EU employment objectives and targets, the Employment Guidelines are built around three priorities for action: attract and retain more people in employment, increase labour supply and modernise social protection systems; improve the adaptability of workers and enterprises; and increase investment in human capital through better education and skills.

### 3.1 Attract and retain more people in employment, increase labour supply and modernise social protection systems

*Promote a lifecycle approach to work*

Demographic change requires an increase in hours worked, longer working lives and later retirement. More work over the life-cycle is a key for sustainable social systems and increased standards of living. Member States have continued their focus on reforms to attract and retain more people in employment, increase labour supply and modernise social protection systems in this year's implementation reports. Limited attention is however again devoted to the development of an integrated life cycle approach. Policies targeted at youth, women and older people are treated separately.

Member States report on reforms to allow older workers to stay longer in working life, to facilitate the return of unemployed older people back to the labour market, and/or to fight

discrimination. Financial incentives have been increased for workers over 65 years of age in IE through increased exemption limits from income tax, and in SE through lower social security contributions. In a number of Member States more wide-ranging actions are crucial to cope with increasing longevity and extending working lives. Reforms must press ahead to discourage early retirement. Stronger efforts are also needed to ensure that real job opportunities for older workers are created. To meet the demographic challenges requires more rapid progress towards both the employment rate target of 50 percent set for 2010 and the target to increase the average exit age by 5 years. The employment rate of older workers has increased in most Member States, and now stands at 42.5%. However this varies significantly with rates below 35% in BE, IT, LU, HU, AT, PL, SI, SK and in MT. This rate has increased for both women, and men, to 33.7% and 51.8% respectively, but a significant gender divide remains. The average exit age increased in 2005 to 60.9 years, 60.4 for women and 61.4 for men, an increase of only 1.5 years since 2001, and clearly below the target of raising it by 5 years.

The employment rate for women has increased in almost all Member States. However, the potential contribution of women to raising the aggregate employment rate is still not fully exploited. Further policies to promote child and elderly care, and the reconciliation of work and family life would continue to improve the labour market position of women. The average female employment rate rose to 56.3% in 2005, but is still under 50% in EL, IT, MT and PL. In the majority of Member States there remains no reference in the Implementation Reports to specific measures aimed at promoting female employment or reducing gender gaps, with the exception of measures to increase access to childcare facilities. Some Member States (AT, BE, DK, DE, ES, IE, IT, LU, PT, UK) have set national childcare places targets but few report on progress towards the European childcare target. Overall progress towards this target remains slow. Actions to make childcare more affordable through a maximum fee or reduced costs are stressed in just AT, DK, FI, IE, MT, and NL. The need to strengthen the role of men in the reconciliation of work and family life is lacking. SI has launched a campaign to make men more active in family life, LT introduced new paid paternity leave opportunities for fathers, and CZ, DE and EL will extend the possibility for fathers to take parental leave.

### **Responding to the commitments made at the 2006 Spring European Council**

Young people tend to profit less from employment growth. In most countries the labour market integration of young people is not improving significantly. The youth employment rate remained unchanged at 36.8% in 2005, with rates of 39.7% for men and 33.8% for women. There was a slight increase in the youth unemployment ratio with the overall ratio moving up to 8.4%. The ratio is now above 10 percent in PL, SE, SK and FI. The decrease in youth unemployment in some Member States is linked to emigration of the young.

Both the European Pact for Youth and the commitments made at the 2006 Spring European Council, identified young people as a priority group. All countries now pay increased attention to the issue, but with varying levels of commitment. Measures are being implemented, but a more comprehensive approach is needed. Few Member States implement measures to both increase employability and incentives for employers to hire young people. In some countries the new start for youth is enshrined in legislation or operative targets of public employment services (AT, DE, CZ, DK, FI, NL, MT, UK) or this is envisaged (LU, IE). Less than half of the Member States actually meet the target of a new start within six months by 2007 (AT, CZ, DK, FI, DE, UK, LV, NL, SE). Member States use a range of measures to provide for a new start. Typically these are training measures, but also include financial incentives for employers to hire the young or apprentices (AT, FR, HU, MT), the return to education for early school leavers (CZ, UK), and reform of the public employment services (PES) to provide a better quality service. A few countries point out the need to activate young people through reduced social benefits for young unemployed. In many Member States youth unemployment is the result of deficiencies in other areas (education and training systems) and due to the poor functioning of labour markets (high barriers for new entrants; labour market segmentation pushing young people into precarious work). Attention needs to ensure that measures targeted at the young do not have the adverse effect of segmenting labour markets even more.

*Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive*

Policies to encourage the inclusion of people on the margins of the labour market need to be stepped up in order to fully exploit potential labour supply. Member States are converging in efforts to strengthen the active inclusion of the most disadvantaged through a balanced approach combining individual labour market support, high quality social services and an adequate level of minimum income. Increased conditionality for benefit receipt is an important part of this, but must not push the weakest members of society further into social exclusion. AT, BE, FI and FR are, and SE will, subsidise household work which will increase employment opportunities for the low skilled and low paid. Few Member States report on progress towards the target that a quarter of the long-term unemployed should be receiving active support. A number of Member States are implementing measures to raise employability, encourage the start up of a business, or provide subsidised jobs. However, the overall level of support is insufficient. The Employment Strategy target that all people should receive a new start within 12 months for adults is poorly reported and where it is, the outcome varies considerably.

Most Member States devote attention to people with disabilities, and in some cases people on sick leave, through a combination of legislative measures and reforms focused on rehabilitation, activation and the provision of employment incentives. A number of Member States are implementing measures targeted at immigrants or ethnic minorities, but the unemployment rate gap between EU and non- EU-nationals is still more than 10 pp in many countries (BE, DE, FR, NL, FI, SE). The most worrying concern is that this gap actually increased in all these Member States except FR.

Measures to make work more attractive through financial incentives, including lower social security contributions (BE, DE, NL, MT, SE), lower taxes (BE, EE, FR, IE, MT, NL, SE, SI, SK), the use of in-work benefits (BE, FR) and an increased minimum wage (LT, LV and UK) are now widely used. These measures are mostly targeted at low and middle income earners, but an increasing number are being targeted towards specific groups. Financial, and non financial, incentives are directed towards women who have been away from the labour market in MT, and a return to work bonus for long term unemployed will be further developed in FR. Some Member States are strengthening the obligations and activation requirements for unemployment benefit (DK, HU, FI, LT, NL, MT, PT, SI, SK). In SE the level and duration of unemployment benefit will be reduced in order to stimulate the work first principle. The effects of such policies on the most disadvantaged needs to be carefully monitored.

#### *Improve the matching of labour market needs*

Reforms of the public employment services (PES) are now either put in place or continue in many Member States. An increasing number of PES' are focusing on unemployment prevention and on ensuring an individualised approach to support. FR, for example, sets an objective to increase assistance and to shorten the time between inscription at the employment service and the first interview. Some Member States provide detail on an increased spending on labour market policies. The importance of increased efficiency in labour market policies is increasingly highlighted (CZ, EE, UK, PL, FI, DK, FR, HU, NL, SE).

Little attention is given to the role that measures to increase geographical mobility and occupational mobility can play in improving the functioning of the labour market. FI, FR, SK, IT and CZ support the take up of jobs in other parts of the country and AT, CY, EE, FI, LT, SK, and SI have increased or improved labour market training and/or vocational training to promote occupational mobility.

The decision to open up labour markets for the citizens of new Member States in 2006 is rarely mentioned in the reports. Actions to review and revise the management of economic migration from third countries are in place in CY, CR, DK, HU, MT, NL, and PT. IE will take steps to work with Social Partners to assure the good treatment of migrant workers. Steps to better anticipate future skill needs, and manage immigration accordingly, is not mentioned in the reports with exception of CY, FI, IE and MT.

### **3.2 Improve the adaptability of workers and enterprises**

*Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of social partners*

In line with the conclusions of the APR 2006, which clearly illustrated a lack of policy emphasis in the adaptability priority, implementation under this priority has been slow. At the 2006 Spring Council, Member States committed themselves to a more comprehensive strategy to improve the adaptability of workers and enterprises, directing special attention to the challenge of **flexicurity**. Although not every country explicitly cites flexicurity, it is clear that the attention given to this concept has had a positive effect on the policy debate. Most countries are testing its value for national policy making. As yet, few go beyond clustering separate measures under this new heading. Member States have not yet integrated the concept to focus on the interaction of measures rather than on measures individually. Nonetheless, a small number of them have already taken serious steps towards such an approach within their national context. In IE a new 10-year social partnership agreement was signed in 2006, covering many items related to flexicurity.

Labour code reviews are by far the most widespread type of measure. Member States are increasing contractual diversity but generally do not focus on transitions between types of contracts. There are few examples of measures aimed at redesigning Employment Protection Legislation for regular contracts to promote more flexibility and transitions (including LV, PT). Some countries, such as EE and SI, announce new reviews of their labour codes with a view to making them more flexible. In other cases political sensitivity causes delays in policy making (CZ, PL) or abandonment of previous plans, such as the announcement by DE to extend probation periods in exchange for the abolition of fixed term contracts. Policies to introduce flexibility 'on the margins' are still pursued (FR, PL). Countries having operated such policies for some time increasingly realise these encourage labour market segmentation which needs to be addressed. In IT temporary workers will benefit from increasingly harmonised social rights and improved pension rights via higher social security contributions. In ES, a package of measures was agreed with the social partners.

A majority of countries pay attention to tackling undeclared work, often through strengthening the labour inspectorate or other control or surveillance measures (AT, EE, DE, DK, EL, HU, LV, LT, MT, SI). A few countries have designed measures to improve their capacity to anticipate and manage economic restructuring and to forecast future labour market needs. LU is introducing transition plans for those who lose their jobs due to restructuring. IE is announcing a review of future challenges facing the manufacturing sector. MT has set up a one-stop shop for collective redundancies. The introduction of innovative and adaptable forms of work organisation has been promoted in several countries by initiatives at national level (DE, LV, SI, SK, UK) and by the social partners (DE, LU).

Some countries are implementing new forms of support for transitions in occupational status (transition security) allowing workers to be better prepared for transitions between jobs. FI is implementing 'change security', providing dismissed workers with greater financial security during the stage of transition between jobs and fostering more efficient cooperation between employers, employees and labour authorities. Other initiatives focus on incentives for unemployed people to start businesses (BE, DE, LT).

Policies presently implemented or designed will not suffice to meet the flexicurity challenge. Effective combinations of flexibility and security result from comprehensive policies impacting on labour markets as a whole. Redesigned EPL to promote more flexible contractual arrangements, active labour market policies, lifelong learning and modern social protection systems should interact with each other, supporting transitions between jobs and contract types, and offering opportunities for workers to progress.

### **Promoting a Flexicurity Response**

**The extent to which flexicurity conditions are in place and interacting positively differs widely across Europe. North European countries generally have flexible labour markets, high levels of active labour market policies, lifelong learning and social protection. Northwest European countries represent dynamic labour markets and good activation performance, but may need to invest more in benefit systems and human resources. In West Central European countries, policies tend to introduce flexibility at the margins, which, in spite of some employment success aggravates the risk of segmentation. Active labour market policies are being developed but effectiveness should be increased, combining 'carrots' with 'sticks'. South European countries often represent strongly segmented labour markets, resulting from previous policies to introduce flexibility at the margins without addressing the very static mainstream labour markets and rising undeclared work. Active labour market policies and lifelong learning systems are weak. Central and Eastern European countries are facing segmentation between rigid work arrangements in traditional sections of the economy and strongly liberalised contractual arrangements in the new economy as well as high incidence of undeclared work. Lifelong learning systems and active labour market policies are very weak.**

**Common principles of flexicurity should take account of this diversity of starting points. They will centre on policy pathways towards greater flexicurity. Policy pathways are packages of measures reflecting, in particular the different starting points in Member States. The starting point reflects the institutional set-up, economic situation of the country, available financial resources and the precise challenges that need to be addressed. The policy pathway would help to promote a climate of trust in which all the actors concerned actively accept responsibility for relevant action. Flexicurity pathways mean countries will combine policies covering labour laws, active labour market measures, lifelong learning and social security reforms. Flexicurity covers both external flexicurity via the labour market, and internal flexicurity within individual companies. In the course of 2007, the Commission will come forward with a Communication proposing a key input to the development of common principles of flexicurity.**

The implementation reports show that wage bargaining developments are generally in line with macroeconomic stability and productivity developments, although the continuously high rates of long-term unemployment and persistent regional differences in employment performance suggest a lack of wage differentiation. High gender pay gaps show no significant signs of being closed. Targets are set only by two countries (EE, FI), and most Member States do not address the issue. Several countries (FI, DE, LV, IT, SI) are implementing plans to reduce non-wage labour costs across the board, and some of these are quite ambitious. Some countries are targeting non-wage labour cost reductions on specific groups, such as long-term unemployed, low paid, young and older workers (AT, BE, FI, IE, FR, SE). In-work benefits are increasingly used, but despite this risks of low-wage and unemployment traps remain. However, there are also cases in which plans made previously had to be abandoned or postponed because of budgetary reasons (HU, PL, CZ).

### **3.3 Increase investment in human capital through better education and skills**

There is a good level of overall implementation of measures announced in the 2005-2008 NRP, with a wide variety of measures. Much of the focus of action is in the areas of: new framework legislation for education and training systems or for lifelong learning, the introduction of new curricula, improving educational offers and enhancing the flexibility of educational pathways. However, many measures are still in their initial phase, and approaches continue to be often rather piecemeal. More comprehensive reforms including long-term policy planning and the development of a culture of evaluation are needed to address some deep-rooted challenges. Member States should also focus on improving the efficiency and equity of education and training systems, in order to ensure a good return on investment by reducing the indirect costs, and to ensure that every citizen, especially the disadvantaged, migrants, and ethnic minorities, can play their full part in society and the economy. It is too often the case that systems reproduce or even compound existing inequities.

#### *Expand and improve investment in human capital*

The 2004 Spring European Council committed Member States to put in place coherent and comprehensive lifelong learning policies by the end of 2006. Only a small number of countries (AT, CY, SK, SI) report on the process of designing their strategy and announce that this work will be completed by the end of 2006. Such strategies should include a strategic overview and priority setting, with a targeted allocation of resources; should cover all forms of education and training (formal and non-formal) and all levels (from pre-school to adult learning); should foresee flexible learning pathways and effective transition points between levels and systems; and they should involve stakeholders at all stages of implementation.

The 2006 Spring European Council identified an increase in education levels as key to improving employment opportunities for priority categories, but there is very little progress in achieving the targets set for 2010. In 2006 about 6 million young people aged 18 to 24 were early school-leavers. At EU level, the rate decreased slightly from 15.6% to 15.1% between 2004 and 2006<sup>3</sup>. The rate remains significantly higher for boys (17.3) than girls (13.1). In this period, school drop-outs rate decreased at least one percentage point in six countries (CY, ES, FR, IT, NL, UK). However, numbers actually increased by more than one percentage point in seven countries (DE, DK, EL, LV, SI, SE, SF). Increased efforts are required in coming years to help reach the EU target, through comprehensive approaches combining preventive and remedial measures. This need is particularly pressing in countries with highest rates of school drop-out (CY, IT, MT, PT, ES, EL, LV).

The upper-secondary education completion rate of 20-24 year-olds has hovered around 77% since 2000 (74% for men, 79% for women), against the target of at least 85%. This target is met by only eight Member States. While the situation is improving in some of the poorly performing countries (MT, PT), it is particularly worrying in ES, which combines a low starting point with a decreasing trend. Decreasing trends also merit attention in DE, FI, and LU. Stronger efforts to increase the completion rate are needed in most Member States. Since upper secondary education is the phase when the majority of young people prepare for transition into the labour market, it is particularly important to improve and diversify the education offered. Strengthening vocational training is crucial for many Member States. Partnership with business also needs to be strengthened to increase the quality and relevance of training. More attention must also be paid to ensuring access to upper secondary education for all young people, including migrant and minority youth. Some countries (AT, DE) have recognised this as a priority, given they face difficulties in youth access to vocational training for migrants.

Europe is not advancing sufficiently towards the target of 12.5% participation rate for adults in lifelong learning. Although participation increased slightly from 9.9% in 2004 to 10.2% in 2005<sup>4</sup>, only five Member States saw participation increased significantly. The situation is most concerning in Southern European countries (EL, IT, PT) and in most new Member States where the average rate is less than half of the EU-15 average (5.5%). Of particular concern is the low participation of older workers in lifelong learning in all Member States. In view of the ageing of the workforce in Europe, it is urgent to develop lifelong learning of people over 45. Only a few countries have concrete measures for this.

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<sup>3</sup> In DK, LU, EE, LV, LT, CY, MT and SI, the high degree of variation of results over time is partly influenced by a low sample size. In CY, the reference population (denominator) excludes students abroad.

<sup>4</sup> Mainly due to doubling of the figure for ES measurement changes at national level.

Despite a commitment by Member States to improve investment in human capital, there is little evidence of actual or planned increases in public and private investment. Very few Member States set national targets for increase of the public education budget (EL does). Only CY and UK have substantially increased public investment in human capital in recent years. The role of private investment from individuals and companies is still not given enough attention. The European Social Fund 2007-2013 will have to play an important role in increasing investment in human capital in many countries, particularly the cohesion countries.

### **Education and Growth**

**One major cause of the relatively slow economic growth in Europe compared with the US is low investment in research and development and human capital. Currently the EU invests approximately 1.2% of GDP in tertiary education compared with nearly 2.9% in the US.**

**There is a consensus that education, and more generally human capital, are key determinants of productivity, and that its role is crucial in a knowledge-based economy. Recent studies acknowledge that an educated workforce is better at creating, adopting and implementing new technologies; human capital influences technological progress. Thus economies endowed with a high-skilled and adaptable workforce are better able to create and make effective use of new technologies and to embrace change. Moreover, the empirical results suggest that the impact of a high skilled workforce on technological progress through technology creation is greater in countries where the working environment encourages adaptability – the capacity of high-skilled workers to trigger, absorb and adapt to changes in economic conditions. They also suggest that although the EU should invest more in higher education, this solution is not the panacea. Indeed, the whole lifelong learning continuum should be considered. Member States should also invest more in pre-primary education as an effective means to establish the basis for further learning and preventing school drop-out. The results also suggest that investing more in higher education, though necessary, is unlikely on its own to be sufficient for the EU to move to the world technology frontier – the adaptability of workers and enterprises matters too. Therefore, the promotion and dissemination of innovative and adaptable forms of work organisation, such as “discretionary learning” are essential.**

#### *Adapt education and training systems in response to new competence requirements*

Member States pay increasing attention to the relevance of education to labour market requirements. This is particularly important for countries where high educational attainment levels are accompanied by high youth unemployment. There are positive signs of upgraded vocational training systems in a number of countries. Measures are being taken to improve the attractiveness of vocational training, to modernise curricula and to improve the infrastructure. The involvement of employers is recognised as crucial for ensuring sufficient numbers of training places; some countries therefore introduce financial bonuses to increase places (AT). However, in a number of countries progress in vocational training reforms remains slow (CY) or reform strategies are lacking (PL).

While the employment rates of graduates are high in most Member States, unemployment is increasing among tertiary education graduates. Policy responses require a stronger focus on the transition between higher education and the labour market. A few countries report measures to reduce gender segregation of studies and to attract more women to studies in engineering and natural sciences. Speeding up graduation is a measure actively pursued in countries with labour supply problems (DK, FI), but may also become an issue for other countries. Implementation of measures for improving the transparency of qualifications and the validation of prior learning, including non-formal and informal learning, is reported by some Member States. These aspects will need more attention in the future.

#### 4. Conclusions: a call for delivery

1. Fostering employment and productivity growth requires a better functioning of the labour markets and quality at work. This calls for comprehensive policies, which encourage the inactive to enter the labour market and increase the total number of hours worked in the economy, which reward work within the framework of modern social security systems and which facilitate restructuring and improve workers' adaptability and skills development.
2. **Flexicurity** should ease the transitions between different stages of working life. The internal and external components of flexicurity should mutually reinforce one another, so that at the same time the modernisation of labour law, investment in training and active labour markets, and the provision of adequate social protection and income security can take place in a context of modern work organisation. Flexicurity should also be conducive to addressing precariousness, reducing segmentation on the labour market, and combating undeclared work. The social partners have an important role to play here. The Commission Communication on flexicurity should be instrumental in preparing a range of flexicurity pathways to find the right mix of policies tailored to labour market needs.
3. A reinforced **lifecycle approach to work** should improve access to the labour market, and promote a longer working life and professional mobility over the life cycle. This should include the urgent improvement of the situation of young people on the labour market in the context of the implementation of the European Youth Pact; more incentives for active ageing and prolonging working lives; the implementation of the European Pact for Gender Equality, with a view to increasing female participation in the labour market; stronger efforts must be made to reconcile work and family life for both men and women.
4. Due attention should be given to **people at the margins of the labour market** to avoid anyone being left behind. Making work more attractive than benefits should be developed through appropriate incentives to make sure that work and work transitions pay. A balanced approach could further consist of individually-tailored measures, appropriate minimum wages or targeted payroll tax cuts and the creation of the right environment for the provision of good quality jobs. More efforts should be undertaken to create opportunities for the low-skilled, for example through the development of the personal services market.
5. To achieve the goal of more and better jobs, effective and efficient **investment in human capital** is indispensable and a breakthrough in lifelong learning is required. Reaping the full benefits of innovation is built on accompanying learning. Recognition of non-formal and informal training is important in this respect.
6. Economic migration is an emerging labour market issue and may be relevant in alleviating labour shortages.