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**Subject: Joint Employment Report 2007/2008**

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Delegations will find attached the Joint Employment Report 2007/2008, as adopted by the Council (EPSCO) at its session on 29 February 2008, to be forwarded to the European Council in view of its meeting on 13-14 March 2007.

**Joint Employment Report 2007/8**

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## 1. Summary: Harvesting the first fruits of reform but concerns remain

The favourable economic environment has left positive traces on the European labour markets. 2006 saw employment-intensive growth for the first time in almost a decade. The past year has seen the creation of nearly 4 million new jobs and unemployment has reached the lowest levels in years. Part of this is cyclical but there are good reasons to believe that the European Employment Strategy and the integrated Lisbon strategy are showing results and that structural reform are starting to pay off. One of the most obvious sign of this is the recent decline in structural unemployment.

Despite the relatively favourable labour market outlook a number of serious concerns persist. Most pressing, youth unemployment continues to be a severe problem in many Member States and young people have not benefited proportionately from the economic upswing; in 2006 they still remained exposed to unemployment more than twice as much as the overall work force. Today nearly one in six young people in the EU, almost 7 million, still leave the education system prematurely and there has been virtually no increase in levels of educational attainment.

Further efforts are needed to reach the European employment targets. Moreover, the responsiveness of European labour markets to the challenges of globalisation and ageing remains insufficient. Structural unemployment still remains too high and more needs to be done within comprehensive flexicurity approaches to improve the functioning of European labour markets and to facilitate transitions with the aim of eliminating barriers to employment.

It is very encouraging that about half of the Member States have now developed or are developing comprehensive flexicurity approaches but the performance within the various underlying components is less positive. Labour market segmentation remains a significant problem in many Member States and the focus of the policy response still tends to be more on easing labour market regulation for new entrants and facilitating more contractual diversity than on reforming existing mainstream labour legislation. Reforms of social security systems have tended to be limited to pension reforms. Active labour market policies, although becoming more personalised, have been subject to a decline in expenditures since 2000 both as a share of GDP and per worker. Finally, participation in lifelong learning in the EU barely increased between 2005 and 2006, while it has actually decreased in half of the Member States, and adult training remains unevenly distributed. These figures are disappointing and worrying for the future. A substantial rise in the investments in human capital better targeted towards labour market needs is essential to close the productivity gap with our key global competitors.

Europe must continue labour market reforms for more and better jobs. People not working and in precarious work need special attention. An ageing Europe in an intensely competitive world needs more people working more productively.

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

### 2.1 Full Employment

#### *Employment targets*

Helped by the strong economic expansion employment growth picked up in 2006 and recorded the strongest increase since the nineties with nearly 4 million jobs being created during the year and the overall employment rate climbing to 64.3%. This employment expansion notably took place in an environment of accelerating productivity growth, not seen in a decade. Progress has been widespread but was in particular driven by a handful of Member States. Labour market performance is projected to continue at least next year and should lead to further progress towards reaching the employment targets.

Despite the positive performance in 2006 Europe remains short of the 2010 employment targets. The current employment rate implies that another 20 million jobs will have to be created by 2010 if the target is to be reached. Forecasts already suggest that another 5.5 million new jobs could be created by 2008<sup>1</sup>. With sustained efforts, the 2010 overall target of a 70% employment rate is now just within reach.

Older workers still represent one of the largest target groups for raising employment. With an employment rate of 43.5% by the end of 2006, (6.5 pp from the 2010 target), there is still significant untapped potential among older workers and their numbers will continue to grow during the coming decades. Regarding gender, the employment rate for women has increased in almost all Member States reaching 57.2 % in 2006, and stands relatively close to the 2010 target of 60 %. With an employment rate of only 50%, people with disabilities also remain a potentially large untapped resource of additional labour supply.

Unemployment dropped significantly from 8.9% in 2005 to 8.2% in 2006 and almost all Member States contributed to this trend. Both women and men benefited as the unemployment rate fell to respectively 9% and 7.6%. A notable indicator of the robustness of the current labour market performance is that the long-term unemployment rate fell for the second year in a row, from 4% to 3.6%.

Youth unemployment remains a severe problem in many Member States. The overall youth unemployment rate did decrease over the last year but this was mainly attributable to significant reductions in a small number of Member States. The unemployment rate amongst young people has actually increased since 2004 in a number of other Member States. So far young people have not benefited enough from the favourable economic environment; they remain more than twice as exposed to unemployment as the overall work force. Finally, many Member States still fall short of the new activation targets. Despite also being a Lisbon priority since 2006, and given the importance of the young generations in addressing the future demographic challenges, these trends remain disappointing.

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<sup>1</sup> European Commission, Economic forecast, Spring 2007

## *Structural reforms*

There are a number of signs that structural labour market reforms in recent years are having an impact<sup>2</sup>. The strongest evidence however, is the significant reduction in structural unemployment throughout Europe<sup>3</sup>. While the period 1997-2003 was characterised by rather stable and high structural unemployment, it has been reduced by about one third since 2004 and is forecast to drop further in 2007. The level, however, is still significantly higher than that of our principal competitors.

Together this points to the existence of significant barriers to employment. European labour markets are not sufficiently responsive to the challenges of globalisation and ageing. More needs to be done to improve their functioning and to facilitate labour market transitions.

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

### *Productivity*

One of the most striking challenges of globalisation is the enhanced requirements for productivity gains in order to ensure sustainable employment growth. Since the eighties, average labour productivity growth in the EU has been decreasing from around 2% a year in the second half of the 1990s, to around 1% between 2001 and 2003. Over the same time frame the US has sustained productivity growth rates of some 2% on average. Since 2003 however, there has been evidence that the decline in productivity growth in Europe is being reversed.

**Table 1. GDP, employment and labour productivity growth (annual averages)**

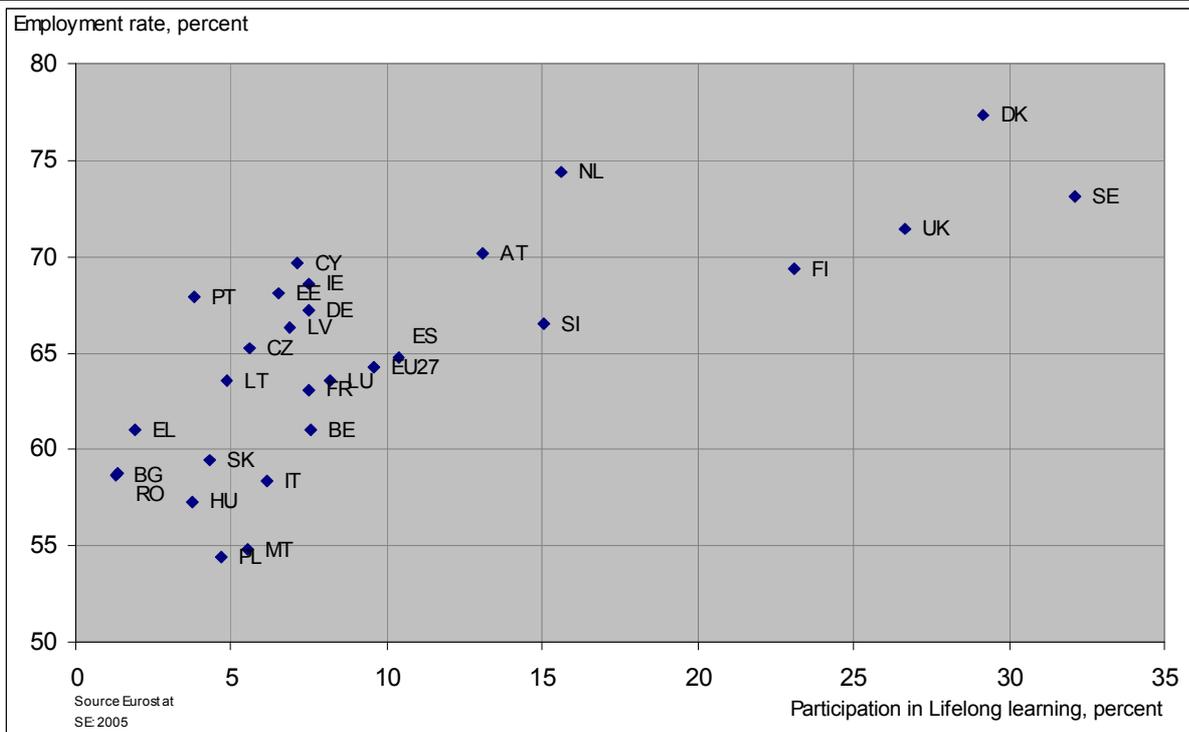
	1997-2000		2001-2003		2004-2006	
	EU27	US	EU27	US	EU27	US
<b>1. GDP</b>	3.1	4.2	1.5	1.6	2.4	3.2
<b>2. Employment</b>	1.1	2.1	0.3	0.0	1.1	1.6
<b>3. Labour Productivity (per worker)</b>	2.2	2.1	1.1	2.0	1.5	2.1
<b>4. Hourly Labour Productivity</b>		2.1	1.6	2.7	1.4	2.3

One important means of improving labour productivity is through investment in human capital, in particular by establishing comprehensive strategies for lifelong learning throughout the life cycle. In this regard, Europe is behind schedule.

<sup>2</sup> One of them is the development in wages. In the current economic upturn, there has been no significant pressure on wages which has been typical for cyclical driven expansions.

<sup>3</sup> European Commission, AMECO database, DG ECFIN

**Graph 2: Employment rates and participation in lifelong learning 2006**



The graph indicates that there is some correlation between employment rates and participation in lifelong learning. The graph might also indicate that to achieve very high employment rates it is necessary to exceed a certain level of participation in lifelong learning.

Clear progress has been made in recent years on reducing early school leaving but in 2006, almost 7 million young people still left education prematurely. Progress is too slow in increasing youth educational attainment levels; figures have only improved moderately since 2000. The level of adult participation has remained stable or has even decreased in 20 out of 27 Member States since 2004. Participation levels are particularly low in Southern European countries and in most of the new Member States. The lowest participation rates throughout the EU continue to be those of older workers.

It is imperative that Europe steps up its investments in human capital<sup>4</sup>. Adequate incentives and cost sharing mechanisms for enterprises, public authorities and individuals must be developed.

<sup>4</sup> Currently US and Japan are for example spending twice as much as the EU on tertiary education

## *Quality at work*

Progress in the quest to increase quality at work again remains mixed<sup>5</sup> and implementation of policies to further this aim limited. In-work poverty still affects 8% of workers in the EU. While 2006 saw some further improvements in youth education levels there has been limited progress in other elements of quality at work, including in particular the transitions from insecure to secure jobs, and the issue of reducing labour market segmentation, the level of which is currently on the rise in many Member States. Adult participation in lifelong learning, one of the key indicators for quality at work shows stagnating or even declining trends.

### **2.3 Social and territorial cohesion**

Social cohesion is crucial for sustainable employment growth. In 2007 in the framework of the open method of coordination in social protection and social inclusion, Member States have continued focusing their policies on fighting and preventing child poverty and promoting the active inclusion of people furthest from the labour market through an approach combining income support with activation policies.

In spite of the positive economic environment, in most countries there was no reduction of relative poverty and employment rates increases for vulnerable groups have been more limited than those for the labour force in general. In the EU, the percentage of adults and children living in jobless households has remained unchanged since 2000 at nearly 10%. Social protection reforms should in particular improve, where required, the adequacy of social benefits linked to employment activity. This is a pre-condition for a well functioning flexicurity approach.

The favourable economic environment has had significant impact on the magnitude of regional disparities which continued to narrow in 2006, especially as concerns unemployment. It is still characteristic that regional disparities on unemployment are markedly larger than on employment, but the former has been reduced by one third since 2001. Although this trend is observed in most Member States there is a handful recording a strong negative trend in regional disparities.

## **3. Implementing the priorities for action**

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

#### *Promote a lifecycle approach to work*

Still only very few Member States have a comprehensive lifecycle approach to work.

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<sup>5</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.

There has been some recent progress in encouraging active ageing strategies especially through restricting eligibility conditions, while compensating for particularly demanding or hazardous jobs, by increasing incentives to work longer for employees (BG, AT, FR, ES, DK, PT), and by enhancing work opportunities for older and particularly disabled workers and by improving working conditions and providing opportunities for skills upgrading and retraining. The current average exit age from the labour market (60.9) still remains well below the 2010 target.

The progress in the field of gender equality has been mixed. The female employment rate has increased strongly but is still under 50% in 4 Member States (EL, IT, MT and PL). Only some countries (AT, CY, DK, FR, EL, IE, LV, MT, PL, SE, SI) systematically use statistics broken down by sex for reporting on employment. The gender pay gap shows no sign of reduction over the last few years and is still at 15 % overall in the EU. Few countries have taken concrete actions in this field (AT, BE, DK, FI, FR, LU, NL, SE, SK, UK) and no new targets have been set following the Commission Communication on gender pay gap.

***Box 1: Promoting the labour market integration of young people remains a key challenge***

Only about half of the Member States have seen an improvement in youth unemployment between 2000 and 2006. There are still 17.5% of young men and 13.2 % of young women leaving school with at most a lower secondary education. Only six Member States have reached the target of no more than 10%.

Despite relatively poor results, increased efforts to fight youth unemployment are reported by many countries. Policy measures are pursued along 4 axes: Firstly, through improved vocational education and training pathways (AT, BE, LU, EE), specific guidance and pathways for at-risk school leavers (BE, FR, DE, LU, SI) and specific contract schemes with a training component (LU). Secondly, through intensified and personalised guidance and job-search support (PT) and creation of employment pathways (MT). Thirdly, through reduction of employers' social security contributions (BE, ES, HU, SE), tax promotion for apprenticeship places (AT, FR), wage support for recruitment of long-term unemployed (DE). Fourthly, through strengthening the conditionality of social or unemployment benefits (CZ) and reduced taxation of students' jobs (FR)

At the 2006 Spring European Council Member States agreed that they should provide a "new start" for the young unemployed within 6 months by 2007 and 4 months by 2010. According to the most recent EU data, only 15 countries manage to have a timely new start offered to at least two thirds of young unemployed. In a small lead group of countries nearly all young unemployed are offered a new start during their first months of unemployment (AT, FI, SE). Seven countries have reached a 80-90 % coverage (BE, FR, DE, IE, LT, NL, ES) while 4 countries only provide a 70-80% coverage (HU, LV, LU, PT). For the remaining countries no EU data are available.

The issue of reconciliation between work and private life is gaining some impetus in Member States, mostly through the commitment to improve the provision of childcare facilities (AT, DE, EL, LU, NL, PT, UK). However, many Member States are far from reaching the childcare targets and most do not even refer to them in their national strategies.

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

Efforts have increased in integrating people at the margins of the labour market and in an "active inclusion" approach. Low-skilled job seekers are subject to specific activation measures or support for placement from the employment services (MT, UK), while financial incentives are created for employers to hire them (BG, DE) and train them (BG, NL). Some measures aim at providing specific training opportunities, organised either through public employment services or on-the-job (AT, LT, BG, EE, BE). A number of Member States have taken steps to develop and improve the programmes for basic literacy and numeracy of adults (FR, DK).

Specific training measures and language courses are being offered to migrants (DE, SE, CY, DK, ES, AT, BE, PT) and activation measures coupled with support from the employment services (DK, ES, DE, AT, EE, PT, UK) are specifically aimed at this group. Wage subsidy schemes for employment of migrants and their descendents have been introduced in SE and DK. Some Member States are taking steps to better integrate children of immigrants into the educational system (LU, NL, PT), while others with large shares of immigrants are launching specific programmes for geographic areas where migrants are highly concentrated (FR, UK). In a number of countries, immigration is seen as an important element in answering labour market needs (ES, DK, IE), and some Member States are planning to develop plans to attract highly skilled migrants (NL, CY, DK), and to simplify the procedures for work and residence permits in sectors where there are labour shortages (SE, IE, AT, FI, EE, MT, BE, CY, DK, ES, LU, SI).

Some Member States have increased spending and raised the effectiveness of their active labour market policies (AT), notably by tightening eligibility conditions for unemployment benefits (PT, EL), increasing the effectiveness of job-search assistance (BE, SK), providing targeted training for the unemployed (AT) and introducing "in-work" benefits (SE). Some Member States also subsidize self-employment (DE, LT, EL, SK, LV, PT). An increasing focus is on the individual responsibility of job seekers (BE, MT, NL, SI, LU, UK, SE, DK, HU, PT), with increased conditionality of unemployment benefits, increased monitoring of their job searching activities and in some cases their contracts concluded between job seeker and employment service defining rights and mutual obligations. The local or regional dimension of activation is often emphasized, and many Member States aim at improving the internal cooperation between the different agencies serving job seekers (NL, MT, HU, IE, SK, PT). However, Member States rarely report on the "new start" target for unemployed, or the activation target for long-term unemployed.

Some countries have lowered tax wedges in order to foster participation rates and job creation either through general tax reductions, mainly focused on cutting the tax-wedge on low income groups (AT, FR, HU, IE, CZ, IT, MT, LT, SE), or by a straight reduction of the tax burden on low incomes (DK, FI, EL, NL, SI). Also, a general trend towards reducing social security contributions for both employers and employees was recorded over recent years (BG, BE, SE, MT).

Financial incentives are being created to increase the readiness of people with a disability to take up work (IE, EE, SK), while subsidies are given to employers to hire disabled people and to adapt their workplace to their needs (ES, MT, NL, SE, PL, IE, SI, AT, BG, LV, PT). Measures are also being taken to establish and develop guaranteed jobs and supported employment opportunities (CZ, DK, ES, SE, SI, DE, LT, SK).

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

Adaptation to economic change is stated as a relevant priority for all Member States, although addressed through different tools at the level of the Public Employment Services. Different areas have seen particular investments: training and vocational qualifications (EE, IE, SI); skills upgrades (DK, PT, CY, IE) and involvement of employers (EL, IT, UK); taxation measures to address disadvantaged social groups (FR, FI); targeted services according to age group, education/qualification levels and greater exposure to the risk of exclusion (PT); extension to a personal assistance scheme and reinforcement of services for people with disabilities (SK); work-life balancing (CY); actions for female and senior workers (LT) or young people (PL, SE); public-private partnerships (BE, IT<sup>6</sup>).

However, with very few exceptions (BE, IT in particular), not much progress on trans-national mobility has been achieved across Member States. Conversely, concerning the anticipation of skills needs, several Member States (AT, DK, IE, EL, LT, LV, MT, PT) are building infrastructures to forecast labour market needs and skills shortages.

### **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*

Whereas promoting the adaptability of workers and enterprises received little attention in the first year of the new cycle launched in 2005, a careful examination shows that the political prioritisation by the European Council and the wide debate since then on flexicurity has brought about an important turn-around, and increased the awareness of the benefits that flexicurity policies can bring. Flexicurity is now acknowledged throughout the EU as a key approach to make labour markets more responsive to the changes resulting from globalisation, as well as to reduce labour market segmentation.

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<sup>6</sup> The Italian NRP dedicates a specific section to PES and to the assessment of their reform process over the last 7 years.

**Box 2: The increasing role of flexicurity**

About half of the Member States have now developed or are developing comprehensive flexicurity approaches, and combining efforts on contractual arrangements, lifelong learning, active labour market policies and social security systems. This is a considerable improvement from only a handful in 2006. Various Member States are reporting on their intentions, including initiatives to develop national flexicurity pathways, seeking cooperation with or input from their social partners (for example AT, FI, IE, IT, SI, FR).

On July 23<sup>rd</sup> 2007, the **Italian** Government signed an agreement with the Social Partners on social protection, employment, competitiveness and sustainable growth. The agreement covers the areas of pensions, social benefits, contractual arrangements, work incentives, labour cost, and training. The agreement includes steps towards a more universal coverage of social protection, independent of the specifics of work contracts. It envisages limiting repetitive fixed term contracts, promoting 'long' part-time contracts and improving protection of workers on on-call contracts.

Flexicurity measures are being implemented along two lines. On the one hand, measures are being pursued to strengthen flexibility in order to make labour markets more dynamic and responsive to change, both through internal and external flexibility instruments. SI, EL, BG, RO for instance report on how they wish to promote part-time employment. SK, PL, LU, RO introduced tele-working as a new form of work providing more flexibility. In some countries, the regulation of permanent work contracts is allowing for more flexibility. Changes in employment protection legislation (EPL) for workers on open-ended contracts are relatively scarce. In LV, BG, NL, RO, attempts are being made to simplify EPL although political outcomes are sometimes uncertain.

Initiatives are also underway in several countries to extend security. Labour code reviews are quite frequent (AT, BG, CY, CZ, EE, FI, FR, HU, IT, LT, LU, NL, PL, PT, RO, SK, SI, SE) but their character seems to be gradually changing. They are tending to move away from focusing on increased flexibility through the introduction of new types of contracts, and towards a more balanced approach including more security for workers on temporary contracts. MT, SK, HU, NL, CY, IE, IT are improving social protection provisions for workers in part-time or fixed-term contracts. The regulation of temporary agency work is a policy focus in FI, AT, BG. Some countries aim to limit the consecutive use of fixed-term contracts (CZ, FI, IT, NL).

A move from passive to active labour market policies is slowly taking shape (e.g. by increasing job search support, benefit conditionality or by reforming tax and benefit systems to "make work pay"). Transition security for workers on open-ended contracts is not really recognised as an issue. The traditional attitude, concentrating on job security rather than on a broader concept of employment security, is still very much alive though policy efforts are restricted to the management of larger company restructurings.

Targeting segmentation is also an explicit goal in some countries, with for instance ES creating incentives for employers to transform time-limited contracts into permanent ones. On the whole, however, segmentation of labour markets remains to be addressed, especially for female workers, still affected by low quality jobs and weaker employment and social security. Between 2000 and 2006, the share of workers on temporary contracts in EU27 rose from 12.2% to 14.1%, whereas the share of workers on part time contracts rose from 16.4% to 18.1%. A high level of undeclared labour is another aspect of segmentation (IT, EL, SK, HU, LV, LT, SI, RO, BG). Most countries suffering from high levels of undeclared work are paying attention to this concentrating on reinforcing labour inspectorates or other control or surveillance measures and incentives to legalise labour relations (EL, HU).

Policies aiming to modernise work organisations receive rather little attention in Member States. Innovations in working time management are most widespread (DE, LU). Only few countries are developing a comprehensive vision of high quality workplaces, combining greater demands and responsibilities on workers with increased autonomy at work (FI, SE).

#### *Ensure employment-friendly labour cost developments and wage setting mechanism*

Employment-friendly policies should support wage developments in line with productivity in order to achieve high employment and contain inflation. Member States are largely successful in ensuring this balance. Wage flexibility is not widely addressed, although some countries, in cooperation with their social partners, promote wage settlements that reflect productivity differentials at company level. Efforts to reduce non-wage labour costs are widespread, and focus in particular on young people and workers with disabilities.

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

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

Investing in human capital to achieve efficient and equitable outcomes is still a challenge in most Member States. Total public expenditure on education as a percentage of GDP increased in the EU between 2000 and 2003 from 4.7% to 5.2%, but then decreased again to 5.1% in 2004. Similarly, progress on private expenditure on educational institutions as a percentage of GDP slowed down in 2004. The European Social Fund (ESF) will invest around 34.3 billion EUR in improving human capital and life-long learning systems in the current programming period.

Most countries have made progress in defining comprehensive lifelong learning strategies covering all systems and levels of education and training. It is essential that those countries that have not yet adopted a lifelong learning strategy do so urgently. All countries have measures addressing the areas for which EU benchmarks have been set: reducing the number of early school leavers, and improving secondary attainment and increasing adult participation in lifelong learning. , Although most countries have set national quantitative targets (BE, DK, CY, EE, EL, ES, FI, FR, HU, IE, LT, LV, MT, PL, PT, RO, SI, SK) the modest progress visible since 2000 is not sufficient to reach the EU targets set for 2010.

Every sixth young person (15.3%) aged 18-24 in the EU-27 still leaves school with no more than lower secondary education (male: 17.5%, female: 13.2%) and does not participate in any kind of education and training after this. Progress has so far not been sufficient to reach the EU benchmark of 10% by 2010. Several countries (ES, IT, MT, PT) still had very high levels (above 20%) in 2006 and in some countries performance has actually worsened since 2000 (ES, LU, SE, SK). Similarly, there has been some progress in improving upper secondary attainment levels, but not enough to achieve the objective of at least 85% of 22-years-olds to complete at least upper-secondary education by 2010.

Also adult participation in lifelong learning is no longer on track to achieve the EU benchmark of 12.5% by 2010. In 2006, an average of 9.6% of Europeans aged 25-64 was participating in education and training activities (men: 8.8%, women 10.4%), which is slightly less than in 2005. The participation rate remains lower for inactive and unemployed persons, for older persons, and for persons with low educational attainment. The participation of older workers is still only half of the overall rate and adults with a high level of education are still more than six times as likely to participate in lifelong learning as the low skilled.

A large part of the policy-making is focused on finding ways to encourage employers to invest in training and motivate employees to take part in it. Several Member States also see it as a particular challenge to motivate the less-educated and middle-aged part of the workforce to acquire new skills. Many measures imply financial incentives through tax reduction or grants for employers investing in training (MT, ES, EE, BG, DE, NL, IE, DK, BE, LV), but some countries have also taken initiatives to simplify the conditions for educational leave (AT, LU). The role of agreements among social partners about the implementation of lifelong learning strategies is emphasized and stressed by some Member States (DK, FR, PL, NL).

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

There is evidence suggesting that early education is receiving increasing attention in many Member States particularly in establishing the basis for learning throughout life and in facilitating access to education of citizens with a less favourable socio-economic background, and migrants. Some are working on teaching content (DE, DK), quality assessments (ES, LT), building the capacity of pre-primary teachers (CZ) and increasing their numbers (DK, HU, MT, NL, SE, SK, UK). Others are extending compulsory schooling to parts of the pre-primary level (CY, DK, EL, PL). Strengthening pre-primary education is a key measure to improve the efficiency and equity of education and training systems.

National qualifications frameworks in line with the European Qualifications Framework are being implemented or developed by the majority of countries with a view to facilitating international mobility as well as the transition between different education and training sectors. They are an important means for ensuring flexible learning pathways which are also facilitated by many countries setting up systems for the validation of non-formal and informal learning (AT, BG, CY, CZ, EE, ES, IT, LT, LV, LU, PL, RO, SE, SK, UK) while such systems already exist in others (BE, DK, FI, FR, IE, NL, PT, SI). The challenge here is to move from experiment to full application of such systems in national qualifications systems, including in access to higher education.

These improvements are running in parallel with a greater focus on learning outcomes in learning programmes and qualifications which increases the relevance of both vocational education and training and higher education for the labour market. Despite renewed emphasis on apprenticeship and work-based learning, further work must be done to improve the quality and attractiveness of vocational education and training.

Little progress is visible in forecasting future skills and qualifications needs, despite the efforts made by some countries to improve their infrastructures (AT, EL, LT, LV, MT, PT). More also needs to be done by Member States to facilitate international mobility. Mobility is still much more widespread in higher education than in vocational education and training. Given that the quality of teacher education is a prime factor influencing student performance, more attention must also be given to teacher education and training, in particular to continuing teacher training and professional development.

Finally, a number of countries are developing centres of excellence in higher education (DE, EE, EL, FI, UK), but more needs to be done to address education alongside research and knowledge transfer in the context of such initiatives, and to improve university-business cooperation.

#### 4. **Prioritising action for more and better jobs**

Building on the priority area of **investing in people and modernising labour markets**, action should be focused on the following issues.

- Member States should develop and implement effective **flexicurity** approaches in accordance with the agreed common principles. The Mission for Flexicurity should contribute to this end. Reinforcing mutual learning programmes is important to ensure that Member States benefit from one another's experience. The illustrative pathways are a useful reference in this process.
- The EU labour market should be responsive to changing global trends. Investing in human capital within a life-cycle approach to work is crucial to take full advantage of creativity and innovation. Through **anticipating skills' needs**, more effort should be given to ensure the reallocation of labour to more productive jobs where the European economy has a comparative advantage. The implementation of the New Skills for New Jobs approach is important in this respect. The impact of the EU's climate change policy on employment and the opportunity to create 'green jobs' needs to be considered.
- The inactive and people at the margins of the labour market need particular attention to tackle segmentation, promote **inclusive labour markets** and avoid anyone being left behind. Labour market policies should be combined with an active inclusion strategy in order to combat poverty. Making work more attractive than benefits should be developed through appropriate incentives. A balanced approach could consist of individually-tailored measures, appropriate minimum wages or targeted payroll tax cuts. More efforts should be undertaken to create opportunities for the low-skilled and to support upward occupational transitions.

- Increasing employment rates of older workers, young people, the foreign-born, and persons with a disability is of great importance if Europe is to successfully include people outside the labour market and counter-balance the effects of an ageing population. The gender equality dimension should be more effectively taken into account in the employment policies of the Member States. **Youth employment** is a pressing issue. The variation in the situation of the young indicates the scope for mutual learning as a basis and incentive for policies promoting youth employment. Reducing early school leaving and improving the transition between education and employment remains of utmost importance. Easy entry points in the labour market are necessary and are linked to a better matching process.
- The European Union should further facilitate geographic and occupational **mobility**. The **portability of social rights** should also be considered in the future.
- **Economic migration** can play a role in addressing the needs of the labour market and can contribute to help reduce skills shortages. It therefore considers that the employment and social impact of migration from third country nationals needs to be addressed in the context of the Commission proposals for a common policy on immigration.
- The Commission proposal for a renewed **Social Agenda** by mid 2008 should provide a vision and concrete measures to address the labour and social challenges the EU is facing by using all instruments and tools available at Community level. The Social Agenda should play a key role in strengthening the social dimension of the Lisbon Strategy for Growth and Jobs and the **Single Market** to better articulate the principle of free movement with social standards and workers' rights.
- **Ownership** is key to success. Further efforts should be made in particular at national level, to strengthen the active involvement of the social partners and other relevant stakeholders to take forward the reform agenda.

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