

Communication on the future of the EES **Extended Impact Assessment report**¹

INTRODUCTION

The present impact assessment builds on a detailed assessment of the first five years of the European Employment Strategy (EES), which was conducted with the Member States during 2001 and the first half of 2002, and on the subsequent political debate and consultations of stakeholders. The full technical details of the impact assessment of the first 5 years of the EES were published on the europa website (http://europa.eu.int/comm/employment_social/empl&esf/ees).

1. THE ISSUE : REVISION OF THE EES

1.1. The open method of coordination (OMC) and its addressees

One of the objectives for the EU established in Art. 2 of the Treaty is *a high level of employment*. This objective should be achieved through a coordinated strategy for employment, with a view to increase the effectiveness of national employment policies (art. 3). Already at the Luxembourg "Jobs" Summit (November 1997) it was decided to launch a common employment strategy (the EES) and to develop it on the basis of the open method of co-ordination (OMC) foreseen in art. 128 of the employment title of the Treaty. Under the OMC, annual Employment Guidelines are adopted by the Council ; they have to be reflected in National Action Plans for employment (NAPs), which are assessed through the Joint Employment Report (JER) from the Commission and the Council. Member State specific recommendations complement the Employment Guidelines since 2000.

Although the Employment Guidelines and recommendations are addressed to the Member States, their implementation also involves the social partners, local and regional authorities and the civil society in accordance with the national institutional set-up, and affects potentially all citizens as members of the labour force.

1.2 Employment in the context of sustainable development

The basis for the EES was already laid down in the Commission's White Paper on Growth, Competitiveness and Employment (1993), which recognised the need to reduce the unsustainable level of structural unemployment and to raise the employment intensity of growth of the European economy. This led to political awareness that, whereas growth underpins job creation, the economic growth potential can be influenced by increasing adaptability, skills, labour supply etc. This balance was articulated in the four pillar structure of the EES (employability, entrepreneurship, adaptability, equal opportunities) which call on supply and demand side approaches to the employment issue, whereas the mutual reinforcement between economic policy and employment policy is reflected in the Treaty requirement (art. 126) of consistency and complementarity between the EES and the Broad Economic Policy Guidelines (BEPGs).

¹ On the basis of COM(2002)276 of 5 June 2002 (Communication from the Commission on impact assessment)

AS OF 2000, THE LISBON AND GÖTEBORG EUROPEAN COUNCILS DEFINED A COMPREHENSIVE STRATEGY AIMED AT THE GOALS OF ECONOMIC GROWTH, EMPLOYMENT, SOCIAL INCLUSION AND SUSTAINABLE DEVELOPMENT, AND RECOGNISED THE LINKS BETWEEN THESE GOALS². THE LISBON GOALS WERE INTEGRATED IN THE EMPLOYMENT GUIDELINES AS A RESULT OF THE MID TERM REVIEW CARRIED OUT IN 2000.

Furthermore, the Commission Communication COM(2001)264 on a European Strategy for Sustainable Development recognised six main threats to sustainable development, two of which enter directly in the sphere of the Employment strategy : the ageing of the population which threatens directly the sustainability of economic growth and of the pensions systems ; and poverty and social exclusion. These two issues are addressed as well by the European Employment Strategy (EES), the priorities of which included from the start the extension of active life and the promotion of social inclusion through employment. Moreover, the OMC for social inclusion, launched by the Nice European Council, included "participation in employment" as a priority action for the social inclusion process.

1.3 Mandate from the Barcelona European Council

The review of the European Employment Strategy was already foreseen in the Social Policy Agenda endorsed at the Nice Summit (end 2000). The Barcelona European Council, noting that "*the Luxembourg Employment Strategy has proved its worth*", asked that the **EES be reinforced**. To this end the European Council suggested that the Employment Guidelines be simplified, in particular by reducing their number without undermining their effectiveness, that the time-frame be aligned to the Lisbon deadline of 2010 with an intermediate evaluation in 2006 (to monitor achievement of the Stockholm intermediate objectives) and that the role and responsibility of social partners be reinforced.

1.4 "No policy change" scenario and risks of the initial situation

In a "no policy change" scenario, the EES would remain as it is, with no changes in the process and only limited changes in the formulation of the Employment Guidelines. This would however imply that new important labour market challenges would only be covered by the marginal adaptations³, and that opportunities for simplifying and improving the process in view of the enlargement of the Union would be ignored. Eurobarometer surveys regularly confirm the high public expectations of an effective European employment policy.

1. 2. MAIN OBJECTIVES

2.1 Objective

² See inter alia Lisbon conclusions § 6 ("...The European Council needs to set a goal for full employment in Europe....If the measures set out below are implemented against a sound macro-economic background, an average economic growth rate of around 3% should be a realistic prospect for the coming years") and §32 ("...The best safeguard against social exclusion is a job.")

³ E.g. in its opinion on the 2002 Employment Guidelines of 17 October 2001, the Economic and Social Committee indicated the need to better reflect new issues like immigration and integration of vulnerable groups. The issue of immigration is not directly mentioned in the current Guidelines since it does not fit in their structure.

This Communication is a follow up to the Communication of 17 July⁴ on the five-year review of the EES and contains a more concrete response to the Barcelona Council conclusions (§30), calling for a more effective EES with simpler Guidelines. The present Communication does so by defining a *medium term approach for the new EES*, including new priorities for the Employment Guidelines and related improvements in the process⁵.

2.2 Building on previous objectives and experience

The Commission conducted an in depth evaluation of the EES in 2001-2002, on the basis of own information and inputs from the Member States, the results of which are summarised in the Communication COM(2002)416 of 17 July 2002 ("Taking stock of five years of the EES").

The evaluation showed *important achievements of the EES*. Structural improvements in the European labour market had taken place during the five years of implementation of the EES in the form of reduced structural unemployment (a main objective set at the Luxembourg European Council at the end of 1997), a higher employment intensity of economic growth and a better responsiveness of labour markets to economic changes. The improved performance has been underpinned by the significant qualitative changes in national employment policies, in line with the common policy approaches recommended by the Employment Guidelines of the EES : more preventive and active policies for the unemployed ; employment friendly tax and benefit systems ; education and training systems adapted to labour market needs ; a modernised work organisation based on adaptable working time arrangements and flexible work contracts; a widespread gender mainstreaming policy as well as positive actions to fosters equality between women and men. Beyond this general process of policy convergence, the open method of co-ordination of the Luxembourg process has demonstrated its added value. The integrated approach of the EES has fostered consistency in policy formulation, as well as partnerships and new working methods, both at national and EU level.

The priorities of the Employment Guidelines were still considered relevant, but a number of *weaknesses of the EES* were revealed by the evaluation :

- the role of the EES in achieving main objectives like the balance between flexibility and security, or improving the labour situation of people at a disadvantage remained uncertain ⇒ more emphasis is needed on quality in work and social inclusion
- the effectiveness of active labour market policies needs to be further proved ⇒ more evaluation is needed
- the fact that new medium term employment policy challenges like the demographic issue, the changing patterns of working life, labour market disparities and emerging bottlenecks are insufficiently addressed by the EES ⇒ the priorities of the EES have to be updated
- the process, and notably the Employment Guidelines should be adapted in order to allow implementation in an enlarged Union with a wider diversity of actors ⇒ need to adapt the process.

⁴ COM(2002)416

⁵ Many of the improvements are a result of the improved employment and economic policy coordination following the proposals contained in the Communication on streamlining, COM(2002)487 of 3 September 2002

3. POLICY OPTIONS

3.1 "No policy change" option discarded

The "No policy change" option was not seriously considered, given the conclusion from the impact evaluation and the general recognition of the need to adapt the EES to new challenges.

3.2 Basic approach followed

The Communication advocates an in depth change integrating the EES into the Lisbon approach, updating it to new challenges, making it more outcome oriented and adapted to the context of enlargement. In doing so, the request for more effectiveness and simplification from the Barcelona conclusions (less, simpler and stable Guidelines) has also been taken into account. The main characteristics are the following.

Integration into the Lisbon objectives

– Integration of the EES in the Lisbon strategy had been attempted on an ad hoc basis through the 2001 and 2002 Employment Guidelines, through the incorporation of horizontal objectives inspired by the Lisbon agenda. This has increased the complexity of the Guidelines. It is proposed to replace the horizontal objectives and the four pillars of the Employment Guidelines 2002 by three key objectives which are directly derived from the Lisbon agenda, and to specify priority actions.

Addressing new challenges but safeguarding success policies

– New challenges have been better taken into account. Key examples are the new priority in the field of immigration, which is directly connected with the demographic issue, and the fight against undeclared work.

– The success policies of the past five years are in substance maintained, although refocused to reflect the lessons from the evaluation and, for example, in the case of entrepreneurship, to reduce overlaps between various OMC's.

Simplification and more outcome orientation

– The proposal could lead to a simpler structure than the actual Employment Guidelines : 15 areas for priority action are identified, supporting 3 overarching objectives. The Guidelines would be kept unchanged until a revision in 2006.

– The focus on implementation and outcomes to be attained by 2010 (the Lisbon deadline) is reflected in a target-oriented approach.

Better governance

– There is a specific section in the proposal dealing with governance aspects, in particular the involvement of the Social Partners which was especially stressed by the Barcelona conclusions.

– Member States and the actors involved would be given general indications on key factors for successful implementation (efficient delivery services, budgets etc.).

Enlargement

– The emphasis on simplification, and less detailed guidelines will ensure that the messages of the Guidelines are relevant for the new Member States. Where needed and considering the increasing diversity between Member States, specific guidance will be given through recommendations which have proved to be effective since they were first used in 2000.

3.3 Trade-offs, designs etc.

Three main trade-offs emerge when comparing the new approach with the current EES.

– Firstly, the "four pillars" of employability, entrepreneurship, adaptability and equal opportunities are likely to be reviewed⁶, and the three overarching objectives deriving from the Lisbon agenda would be put more at the forefront.

– Secondly, the new outcome oriented approach tends to lead to comparatively less and simpler Employment Guidelines. As a result and where necessary, the country specific policy guidance may be shifted from the guidelines to the employment recommendations.

– Thirdly, the intended stability of the Guidelines until 2006 means renouncing to annual adaptations. This would create a more stable and transparent framework for implementation at all levels. If needed however, the Treaty allows intermediate changes in the Guidelines, whereas the stability does not apply to the recommendations.

3.4 Policy instruments, subsidiary etc.

See section 5 below.

4. IMPACTS

In the context of the OMC on employment, which recognises the competence of the Member States for their employment policies, the link between policy proposals and their actual impacts should be considered as rather indirect.

In the "**no policy change**" scenario, the EES would insufficiently reflect the new labour market challenges and become increasingly irrelevant. Because of the level of prescription, it would not carry adequate messages for all Member States in an enlarged Union and possibly even confuse stakeholders. Because it would not fit in the Lisbon agenda, the EES would be progressively marginalised and fail to contribute to the achievement of the Lisbon agenda, which expresses high ambitions on employment related matters (see the Lisbon and Stockholm targets for employment rates, quality at work and social inclusion).

The **current proposal** for the future EES contributes to an improvement in the policies and delivery mechanisms, and thus ultimately the effectiveness of the EES:

Economic and employment impacts, sectorial aspects

– It can be expected that the future EES better supports the policy aimed at *economic growth* through a better synchronisation with the BEPGs and the emphasis on the positive link between quality at work and *productivity*. It is generally recognised that well coordinated

⁶ In this context, the explanatory statement of the EP resolution of 24.9.2002 stated that "...it appears to the rapporteur that the current pillar structure has served its purpose and that it has been left behind by policy development during recent years."

employment and economic policies are mutually supportive. The 2002 review of the EU economy quotes simulations from the Commission services indicating that "...*labour and product market reforms, in combination with wage moderation, may have increased the level of potential output in the period 1996-2001 by 3-4 % ... Without reforms and moderate wage developments, average growth in the EU would have been around 2.2 % instead of 2.6 % over that period. This would translate into 5-6 million fewer jobs in the EU and unemployment would have been 2 million higher.*"

- The full employment targets set at the Lisbon and Stockholm European Councils are explicitly referenced and will be central in the monitoring process.
- The suggested approach does not focus on particular economic sectors.

Sensitivity analysis ; impacts over time

- The evaluation of the EES during the past five years points to similar effects on employment and unemployment as stated above, in particular on structural unemployment. However, the precise impact of employment policies could not be isolated.
- Impacts over time depend on the economic cycles and cannot be predicted ; an intermediate evaluation is foreseen in 2006.

Social impacts, including on groups and regions

- The monitoring mechanism of the EES will help to ensure that *progress to full employment is better balanced* in terms of quality of jobs and inclusion, since these three goals will be central in the EES and at an equal footing. Until now, these three priorities were scattered over the Guidelines : full employment was prominent as a horizontal guideline ; quality was cross-cutting the pillars and social inclusion was covered by one single Guideline. Additional targets are suggested for groups with labour market *disadvantage* (e.g. immigrants, ethnic minorities and disabled), and for the reduction of disparities between *gender* and *regions*.
- The strengthened role of the fight against undeclared work could help to safeguard social protections systems.

Environmental effects

- There are no direct environmental impacts foreseeable. Presumably, the fight against undeclared work (a strengthened priority) could positively affect the environment to the extent that undeclared work tends to escape from environmental controls.

Additional effectiveness

- The proposal suggests a *more diversified set of targets* than before, whether national or EU-wide : targets and indicators have been the key to the success of the EES in the past⁷ and should further steer the process towards its goals.

⁷ Compare prevention and activation where there were precise targets to the area of entrepreneurship or adaptability where they were absent.

- There will be more emphasis on the *effectiveness* of measures - in relevant cases on cost-effectiveness (in particular for preventive and active labour market policies for the unemployed) - , and on the need to develop *statistics and evaluation* to this effect.
- The proposals for better governance should consolidate the EES by giving it a *more open and transparent platform* : the insufficient involvement of social partners, the local level and even the civil society was recognised as one of the weaknesses of the previous guidelines.

Impact on the candidate countries

- The relevance of the targets and the policy messages for the *candidate countries* can be established on the basis of information available (JAPs⁸, "Employment in Europe" edition 2002). Current employment rates differ only by ca. 1% between the EU-15 and EU-25. However, unemployment levels are generally higher and regional differences more pronounced. For several targets, e.g. on skills, the data may not yet be fully comparable.

5. IMPLEMENTATION AND MONITORING

Implementation will continue to be governed by the OMC of art. 128 in full respect of subsidiarity. Specific proposals to better use these instruments than in the past include :

- Less and simpler, but result-oriented Employment Guidelines (see above)
- More reliance on employment recommendations for country specific guidance
- More focused NAPs (dealing with impact, recommendations, budgets and progress to targets, rather than on descriptions)
- As a result, the JER should become a more effective contribution to the Spring European Council.
- Overlaps in the reporting by Member States will be reduced thanks to streamlining.

The proposal does not call for other policy instruments than those which are foreseen by the Treaty (art. 128). It also touches on the role of information and identification of good practices⁹ which should be strengthened in order to boost a wider participation in the EES. The EES does not preclude social partner agreements or regulatory action at EU level in employment related areas in line with other provisions of the Treaty¹⁰.

Arrangements for ex-post evaluation of the policy

An intermediate assessment is foreseen in 2006¹¹, in line with the Barcelona conclusions. The assessment will allow to adjust the policy where necessary, in particular following enlargement (e.g. by reviewing the validity of targets for which currently statistics may be missing or inaccurate).

⁸ See implementation report of the Joint Assessment Papers (forthcoming Communication)

⁹ A framework for such activities exists (decision 1145/2002/EC of 10 June 2002 on Employment Incentive Measures, taken in accordance with art. 129 of the Treaty.

¹⁰ Examples from the past include anti discrimination legislation based on art. 13, or legislative initiatives following social dialogue - see art. 137-139.

¹¹ 2006 will also be the last year of the current ESF programming period.

6. STAKEHOLDER CONSULTATION

A large amount of consultation has already taken place on the basis of the Communication of 17 July ("Taking stock of five years of the EES"). The consultation process is ongoing and will be further deepened through the present Communication. Nevertheless, this Communication took largely account of the contributions already made.

The EP resolution on the results of the first five years of the EES¹² confirmed the need to integrate the Lisbon objectives in the EES and called for developing the democratic dimension of the EES, by involving national parliaments in the annual NAP exercise (this proposal is reflected in the governance section).

The Committee of the Regions and the Economic and Social Committee did not yet deliver an opinion. However, the experience with the EES was discussed at a conference on OMCs organised by the Committee of the Regions on 30 September and 1 October 2002, and the Economic and Social Committee raised some issues for the future EES in its opinion on the 2002 Employment Guidelines.¹³

The Employment Guidelines are directly addressed to the Member States, who have a reporting obligation (NAPs). Member States' position is reflected in the joint opinion of the Employment Committee and the Economic Policy Committee. According to the joint opinion, structural reforms of European labour markets remain necessary. In particular, the EES should respond to the objectives set out at Lisbon on the basis of commonly agreed strategic policy priorities covering broad areas in an integrated way. The joint opinion came up with a proposed list of common strategic priorities and stressed that these should be underpinned by targets.

Through the Employment Guidelines, the Social Partners and decentralised authorities are affected in their respective fields of responsibility.

- Social Partners recognise the role they have to play in implementing the EES : nationally they are involved in the NAP process, and at EU level they have established a multi-annual work programme which integrates the priorities of the EES. The European Social Partners¹⁴ also submitted written comments with specific proposals for key actions to be pursued by the EES : whereas UNICE stressed the importance of entrepreneurial and productivity provisions, ETUC stressed the importance of the balance between flexibility and security, and of sufficient financial provision through the European Social Fund.
- Regional and local authorities are keen to play a more visible role in the EES. This was one of the main conclusions of the conference on OMC held by the Committee of the Regions on 30 September-1 October 2002.
- In addition, the proposal responds favourably to the suggestion made by the EP resolution on the results of the first five years of the EES, to better involve civil society. A large number of NGO's "represented in the Social Platform"¹⁵ were consulted on 29 November 2002, and

¹² Resolution of 24.9.2002

¹³ See footnote 3. The Economic and Social Committee also stressed the importance of indicators.

¹⁴ UNICE and ETUC

¹⁵ Including inter alia the European Women's Lobby, the European Disability Forum, the European Anti-Poverty Network (EAPN), the European Older People's Platform (AGE), and the European Network of the Unemployed.

several have submitted written positions on the future of the EES. General support was noted for personalised approaches (including for the inactive wanting to work) ; more emphasis on quality at work ; more involvement in the national NAP process ; a continued strong emphasis on gender mainstreaming and non-discrimination. Targets for the integration in the labour market of particular groups should not be used at the detriment of the quality of the integration paths or of other groups. These suggestions are adequately reflected in the Communication – targets are left for consideration by the Member States.

7. COMMISSION DRAFT PROPOSAL AND JUSTIFICATION

By not responding to the invitation from the Barcelona European Council to make the EES more effective ("no policy change" scenario), the Union would not live up to the public expectations of an effective European social and employment policy.

The Communication responds favourably to the Barcelona conclusions, and draws intermediate conclusions from the political debate launched by the Communication of 17 July on the results of five years of the EES. It aims at defining more precisely the future EES in terms of challenges, objectives, priority actions and governance.

The Communication precedes the formal proposal for Employment Guidelines for 2003, which is due to be presented after the Spring European Council 2003, and to be formally adopted by the Council in June according to the new timetable. Given the substantive revisions likely to be proposed in the Guidelines, this Communication should facilitate the preparation of conclusions from the Spring European Council (which will be the basis of the formal Commission proposal). It should also facilitate the preparation of the opinions of EP, committee of the Regions and the Economic and Social Committee on a formal proposal