



The Employment Committee

HORIZONTAL OPINION ON THE 2017 COUNTRY SPECIFIC RECOMMENDATIONS INCLUDING THE RESULTS OF THE MULTILATERAL SURVEILLANCE ON THE 2016 CSRS

As mandated by the Council, the Employment Committee (EMCO) has carried out a wide-ranging analysis of the implementation of all 2016 labour market country-specific recommendations (CSRs) issued by the Council to Member States. This examination, seen in conjunction with this year's country-specific opinions going to Council, forms the core of EMCO's Treaty obligation and is a culmination of work to ensure a multilateral view within the committee.

In addition to these multilateral surveillance conclusions, the Employment Committee has recently adopted the draft Employment Performance Monitor (EPM) which identifies Key Employment Challenges (KECs) for the Member States.

On the basis of these different strands of work, the Employment Committee, in cooperation with the Social Protection Committee and the committees of the ECOFIN Council, and with the input of the Education Committee, over recent weeks discussed and upheld or amended the Commission proposals for country-specific recommendations.

The first section of this Opinion provides a horizontal assessment of the Commission proposals for the 2017 Country-Specific Recommendations, which were adopted on the 22 May. It takes into consideration the discussion on the proposals which EMCO held with European Social Partners. The second section contains the main thematic messages arising from our multilateral surveillance reviews. A final section contains some considerations on the process.

Section 1: The 2017 Recommendation proposals

EMCO analysis of the employment and social aspects of the 2017 CSR proposals

Overall, EMCO welcomes the package of CSR proposals. The continued importance given to employment policies within the package shows that the European Employment Strategy continues to play a key role in the European governance process.

- In 2017 there were 76 CSRs. Of these, 34 CSRs (45%) had an element related to social or employment policy. This compares to 42 (47%) in 2016 and 53 (52%) in 2015.
- There was a drop in the total number of actual recommendations contained in the CSRs – 86¹ this year, compared with 114 in 2016 and 118 in 2015. This year is therefore the first time when a drop in the total number of CSRs resulted in a corresponding drop in the total number of actual recommendations.
- There has been little change in the tendency of bundling recommendations together. In 2017 each CSR with an employment or social element contained an average of 2.5 separate social and employment policy recommendations (and, in many cases, other recommendations not related to social or employment policy). This compares with an average of 2.7 in 2016 and 2.2 in 2015.
- The CSRs themselves have a strong focus on skills, education, and training, with 16 CSRs on these topics, as there were in 2016. Unsurprisingly, this matches the analysis in the Employment Performance Monitor, which identified a total of 51 Key Employment Challenges on these topics. This match holds for Active Labour Market Policies and Public Employment Services (14 CSRs vs 27 KECs), and labour market participation of women (9 CSRs vs 26 KECs). However – and unlike last year - there were also some surprising discrepancies between the two instruments. Thus, there are 10 CSRs relating to wages and competitiveness whereas the EPM identifies only 7 KECs and, conversely, only 3 CSRs relating to the integration of people from a migrant background where the EPM identifies no fewer than 17 KECs. Finally, the topic of youth unemployment as such is almost entirely absent from the CSRs, although it is indirectly addressed through CSRs proposed for other areas. The implementation of the Youth Guarantee will continue to be followed-up through EMCO's multilateral surveillance.

¹ Given the bundling referred to below, numbers for discrete recommendations must be read as somewhat approximate, since the assessment of exactly how many recommendations are in one text may vary from one person to another.

Views of social partners

EMCO discussed the CSR proposals with social partners at a joint meeting with the SPC on the 31 May as a prelude to the main discussions.

The trade unions (ETUC) thought that this CSR package represented a significant step forward, particularly with regard to higher wages and more investment. They welcomed the attempt to address real wage growth, and noted that there continued to be some concerns over the minimum wage in a number of countries. Given the importance of tackling precarious work they underlined the importance of wage-bargaining mechanisms involving social partners, and noted that these were specifically addressed at points in the package.

The unions welcomed the focus on the adequacy of social protection alongside its sustainability. They noted their doubts that reductions in the tax wedge on labour had a great effect on unemployment. And they also voiced concerns that too much unemployment was becoming structural, and therefore welcomed the focus on ALMPs in the package.

The unions regretted that the concept of the quality of jobs seemed to be somewhat left by the wayside.

Finally, they urged a strong focus on the implementation of these CSRs.

The employers (Business Europe, CEEP, and UEAPME²) expressed doubts as to whether the package focused sufficiently on what they perceived to be the main issues in the labour market: the tax wedge on labour; childcare; investment in skills. They were cautious on the proposals on wages and wage-setting mechanisms, and stressed the need for growth-friendly policies. They thought there could be more on ALMPs (particularly the effectiveness thereof).

Employers noted that they did not share the Commission's assessment of the level of implementation of CSRs. They noted their view that co-operation with social partners at the national level improves the rates of CSR implementation. Given this they expressed some surprise that there was no CSR on social dialogue as such.

² It should be noted that the employers' organisations made separate interventions and differed from each other on some points. This Opinion tries to summarise the common points.

They also thought there was a need to understand how CSRs fitted with other initiatives (such as the Pillar of Social Rights and benchmarking) to form a coherent policy framework.

In this context, EMCO notes its intention to carry out a multilateral surveillance review on the involvement of social partners in the Semester at national level in autumn 2017³. National social partners will be invited to take an active role in this review.

Section 2: Horizontal messages from the 2016 - 2017 multilateral surveillance cycle

EMCO's analysis is carried out via a series of peer reviews and is known as multilateral surveillance. It is not limited only to follow-up of the CSRs. EMCO has also carried out multilateral surveillance of a selection Key Employment Challenges (KECs) identified in the 2016 Employment Performance Monitor, and of Member States' implementation of the Long-Term Unemployment Recommendation. Continuing EMCO's efforts to co-operate with other Committees, members of the Education Committee were invited to join EMCO for reviews related to skills and education.

In total, in the period December 2016 to May 2017 EMCO carried out 28 LTU reviews (which encompassed 11 KECs and 5 CSRs relating to long-term unemployment), and reviewed a further 57 CSRs and 30 KECs. The conclusions from these reviews are annexed to this Opinion.

The review of **Long-term Unemployment** (LTU) shows clearly that registration of the unemployed is very closely linked to the design of benefits and services: in some Member States this isn't an issue whereas in others it's a big problem. Discouraged jobseekers may need attention since they may not count as LTU.

There are very different approaches to the Single Point of Contact (SPOC) in Member States: some integrate services whereas others use a contact point as a bridge to services; some integrate institutions physically, others virtually e.g. through shared IT infrastructure. Some

³ As a follow up to last year's initial review of social partner involvement in national Semester processes, key messages from which were communicated to the EPSCO Council in December 2016.

countries have only recently begun to try to integrate services. EMCO noted that the Commission's thinking on exactly what constituted a SPOC was not always clear.

Job Integration Agreements (JIA) was probably the area where most countries were in line with the Recommendation: virtually all had something very much like a JIA. Regular revision and updating of this were key here.

Employer engagement comes under different forms: from work with individual employers to on-the-job training to wage subsidies to agreements with social partners. The detail varied greatly from Member State to Member State, depending on who the target of any given measure was.

As an overarching point, the capacity of Public Employment Services was judged to be critical for successfully implementing each of the main areas of the Recommendation.

On **Active Labour Market Policies and Public Employment Services**, the improvements in EU labour markets are obviously welcome, but these have highlighted specific concerns about labour market shortages and groups at the margins of the labour market. The capacity of PES remains an issue, although less so than previously. Links between benefits and activation, and the follow-up of search efforts continue to be important.

Co-operation with private employment services can work well but inevitably throws up questions of policy design, getting incentive rights to avoid 'creaming' and so on. Pilot projects (when well evaluated), and learning from those Member States who have experience in the area, can be of great value.

eServices undoubtedly contribute to greater efficiency but experience now suggests that personal contact with certain groups should not be replaced entirely, and policies may need to evolve accordingly.

Ensuring efficient and effectiveness of active labour market policies and optimal use of public money remains an overriding concern. Monitoring and evaluation of policy measures is therefore of great importance. This is particularly true given the scale and number of significant and profound reforms which have taken place in recent years.

Regarding **labour market segmentation**, considerable heterogeneity was observed. In some cases, its effects are cyclical and in other cases they are structural, being linked to laws on

dismissal, contract renewal, or litigation procedures. There are also links with policies on unemployment benefits and social security.

In some cases, contract concerns seem to hide other issues, such as female labour market participation or the position of second earners. New forms of self-employment – including bogus self-employment – require a broad approach which fosters job creation and avoids abuses. And the problem of undeclared work is often rather embedded in a given socio-economic context and is not therefore easy to tackle. A number of measures are being taken to attempt to reduce the problem but are likely to take some time to come to fruition.

In the area of **youth unemployment**, there is a gradual positive trend, with all countries seeing decreases in the youth unemployment rates, albeit some decreases more rapid than others. Youth Guarantee systems are consolidating, though most countries need to make further efforts to increase their coverage and impact and ensure sustainable implementation. Constant evaluation is needed to assess which measures work best.

Outreach and capacity of services (including PES) remain crucial in tackling youth unemployment, and careful targeting of measures to avoid deadweight effects is needed. Ensuring the quality of offers and sustainability of labour market integration remains a challenge. And the importance of education and skills policy in reducing skills mismatches was once again underlined.

In the field of **education, skills, and lifelong learning**, reforms in this area take considerable time to both implement and to show results (although there are encouraging early signs in a number of Member States).

Several Member States have moved to increase the attractiveness of the teaching profession. Salary increases are welcome but the issue is broader and can also be tackled through, for example, improving working conditions and reducing bureaucracy, and increasing the possibilities for training and career development.

There have been many VET reforms. VET structures have been made more modular and flexible. There is greater choice in VET curricula, and more use of Work-Based Learning. The identification and anticipation of industry needs can be valuable if done correctly. Many of the VET reforms in recent years have been on the supply side: now work needs to be done (often with social partners) to ensure that the take-up reaches the desired level.

There continue to be challenges for many countries regarding the outcomes for disadvantaged groups. Many reforms have been designed and legislation changed: implementation of these changes will be crucial (for example, to prevent segregation in school in practice as well as in law). Language acquisition continues to be crucial for some groups; the prevention of early school leaving likewise.

In the area of **labour market participation**, policies targeting certain groups need to be embedded in a general labour market strategy. Both specific and general policies need to be monitored and evaluated to ensure that they are delivering the required results.

The participation of older workers is an important challenge in some countries (the urgency of this challenge is defined by the situation regarding pension sustainability). This can be politically very challenging: systems of early retirement are notoriously difficult to reform. Reforms must be based on a broad approach (covering, for example, health and safety at work, lifelong learning, and employer awareness). They also need public buy-in and support.

Regarding integration of migrants into the labour market, countries continue to experience problems with second and third generations. We must learn from past policy mistakes and have an early focus on labour market integration and language acquisition. The education system also has an important role to play. The gender aspect of integration continues to be important but the nature of this can differ across generations.

The gender gap continues to close, although improvements are uneven. Many different actions are being undertaken, but often lack an overall strategic framework. There is much room for reform of tax benefits to make work pay for second earners. Use of parental leave could be more balanced. There continues to be a tension between the quality and availability of childcare: new regulatory approaches and investment in childcare allowances seem to be promising in this regard.

From the review on **labour taxation and social** dialogue, there has been progress in many towards reducing the tax wedge. However, progress is often rather limited, and the tax wedge remains high overall.

Where taxes have been shifted, the trend seems to be towards excise taxes rather than towards environmental or property taxes.

Tax shifts always need to be well-designed to avoid negative effects. In particular, measures targeting the hiring of certain groups must be careful to avoid deadweight or substitution effects.

The creep of tax brackets and lack of a link to indexation seems to be a problem: it may be one of the underlying structural problems which keep the tax wedge in the EU at a high level.

On wages, a number of countries have seen a continued period of wage moderation in recent years. Social partner involvement has been strong, especially in minimum wage reforms. Setting the minimum wage always involves finding the right balance between keeping pace with wage developments, protecting vulnerable groups, and maintaining competitiveness. It must be set in a transparent and predictable framework.

Section 3: The CSR process in the context of the European Semester:

The Semester process continues to improve year on year. Co-operation with other Committees and the Commission ran smoothly and efficiently. The overall balance of the CSR package seems right. The issues identified are often the major issues.

There were examples of CSR proposals that were nowhere prefigured in the Committee's work, either in the multilateral surveillance (including the Country Review) or in the EPM. In principle, this should not happen. If it does, then the Committee lacks an agreed analytical basis to draw on which could result in a proposal being rejected for lack of an evidence base for the discussion. In this context, the Committee would underline that the results of the multilateral surveillance and the EPM were both very helpful again this year in discussing draft CSRs and CSR amendments.

EMCO has strongly welcomed the improved dialogue between Member States and the Commission on the Country Reports this year, for which the Committee has asked for many years. It paid off in that there were rather fewer disagreements about factual matters contained in the analysis (these disagreements having mostly been resolved during the Country Report dialogue). These improvements should be continued so that we arrive at a situation where all analytical elements underpinning the CSRs have been discussed in the context of the Country

Reports or other analyses shared with the Member States before the publication of the draft recommendations.

Along the lines of the progress made over the previous years, there have been further improvements in drafting (last year EMCO called upon the Commission to avoid language such as "to further improve" or "continue reforming", and – at least in the CSRs under discussion – this seems to have happened), which have expedited the discussions.

The last-minute delay in the adoption of the CSR package was unhelpful: not only did it cause the Committee a number of logistical problems, but it also reduced the time available for Member States to consider the proposals of others and may well have helped reduce the multilateral nature of this year's exercise (see below).

Given the tendency for CSRs to be rather more general or broad than in previous years, the recitals may be essential for understanding exactly what a given CSR was seeking to address (and EMCO may need to take this into account in running its multilateral surveillance reviews). In this context, it would be helpful, where possible, if recitals could be forward-looking.

The bundling of several issues into one CSR makes discussing them, and following them up more difficult. The rationale for such bundling is at times not clear⁴. This may also cause problems for the assessment of CSR implementation – with some CSRs covering so many different actions, how can the level of implementation be satisfactorily assessed? While in the past the “number” of CSRs itself has been used to give a message to Member States, there is absolutely no need to continue this practice. Although EMCO continues to welcome a limited number of recommendations, it would clearly prefer a “one CSR = one recommendation” approach, even if this led to an increase in the overall number of CSRs.

The multiannual approach in the assessment of CSR implementation is a positive step towards recognising that a number of reforms in employment, skills and education require longer periods to be rolled out. There remains some confusion over the multiannual status of CSRs, reinforced

⁴ To give an example, the Commission's proposal for CSR 2 for Latvia read: "Improve the adequacy of the social safety net and up-skill the labour force by speeding up the curricula reform in vocational education", thus putting two entirely unconnected issues together in the same sentence. Another example would be Romania's CSR 2 which contains at least five unconnected recommendations: on activation policies; pension ages; wage-setting; access to education; healthcare reform.

by the emphasis on multiannual evaluation. Are CSRs considered to be still extant from previous years if they have not been implemented? Some such CSRs are repeated, but others seem not to be, and the grounds on which this is done are somewhat unclear.

The Commission's flexible and responsive approach to CSR discussions was noted and welcomed. It made the process of reaching consensus considerably easier (and undoubtedly the improved process on the Country Reports also contributed, see above). Whilst this is to be welcomed, it may have contributed to this year's discussions being rather less multilateral than previously. As noted above, the delay in the adoption of CSRs was also a factor. One option would be to give the Member States a few extra days to amend each other's CSRs, rather than their own draft recommendations.