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Delegations will find attached the draft text of the Joint Report from the Commission and the Council: "Increasing labour-force participation and promoting active ageing", as it appears following its examination by the Employment Committee, the Economic Policy Committee and the Social Protection Committee.

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JOINT REPORT FROM THE COMMISSION AND THE COUNCIL

Report requested by Stockholm European Council: "Increasing labour force participation and promoting active ageing"

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INTRODUCTION

Increasing participation in the labour market is a necessary condition for achieving the employment rate targets of the Lisbon Strategy and, therefore, lies at the heart of the European Employment Strategy.

The Stockholm European Council called upon “the Council and the Commission to report jointly, in time for the Spring European Council in 2002, on how to increase labour force participation and promote active ageing in the context of the demographic change.” This report responds to that request.

Increasing participation in the labour market depends on enhancing opportunities for employment by fostering labour demand as well as supply. Favourable macroeconomic conditions and efficient product and services market are, therefore, crucial for increasing employment and labour force participation. However, macroeconomic measures alone will not be sufficient to deliver the ambitious employment rate targets agreed at the Lisbon and Stockholm. It is also necessary to reform Europe's product and services markets and ensure that labour market barriers to participation are removed and that there is genuine opportunity for all to enter or re-enter the world of work. Well functioning labour markets are also an essential requirement.

This report focuses on action that is necessary to raise labour force participation through improvements in the functioning of labour markets. An in-depth analysis and the formulation of policy responses in relation to the macroeconomic context and product and services market as well as in a range of adjacent areas would go beyond the scope of this report. Such issues are covered explicitly in documents that will be part of the overall package prepared for the Barcelona European Council on economic and social affairs in Spring 2002.

Such is the case for pensions and the financial sustainability of pension systems for which an increase in labour force participation would be important to maintain a sustainable dependency ratio. This is also the case for health systems, in particular in the sense that active ageing has an important impact on the health situation of older people and thus on the social priorities as well as on the financial sustainability of health systems.

The recent deterioration in the macroeconomic scenario could pose some risks for rapid progress towards the achievement of the Lisbon and Stockholm targets if it leads to the postponement of reforms. It is essential that the medium and longer-term strategy is not disrupted by short-term considerations. Acting now to raise participation is a major

component of any effort to drive change and achieve more sustainable economic and social development.

Active ageing is also an important contribution to the overall EC objective - as stipulated in Article 2 of the EC Treaty - to improve people's well-being. The Lisbon strategy, strengthened at Stockholm, already addresses this dimension on improving living standards and quality of life in policy terms.

This report should be seen in conjunction with other recent initiatives and other inputs into the Barcelona European Council, including the Synthesis Report on "the Lisbon Strategy- making change happen", the Commission's Action Plan on Skills and Mobility, the Communication on "Making a European Area of Lifelong Learning a Reality" and the Commission's invitation to the social partners for a dialogue on managing the social effects of corporate restructuring.

1. THE NEED FOR INCREASED PARTICIPATION

The European Councils at Lisbon and Stockholm set ambitious targets for raising employment rates in the Union by 2010, to close to 70% for the working-age population as a whole, to over 60% for women and to 50% for older workers (55-64 age group). These targets imply an increase in employment by 15.4 million overall between 2002 and 2010. In line with recent labour market dynamics and increasing female participation, 9.6 million of these jobs could be taken up by women, leading to a female employment rate of 63% by 2010. Reaching the 50% employment rate target for older workers would be more difficult. It would imply an increase in employment for this group by 7.4 million between 2002 and 2010. This is due to the strong increase in the population of this age group. Moreover, a considerable number of inactive people would need to enter the labour market.

Job creation depends on both demand and supply conditions. Achieving the employment targets depends on improving the functioning of capital, product and labour markets in a context of macro-economic stability conducive to sustainable growth. This is also necessary for social cohesion and sustainability of public finances, especially in the area of pensions and health systems. Although the targets refer to the employment rate, and while it is clear that raising employment is directly linked to raising levels of participation, reducing unemployment will also have to play a role.

Raising participation will not be easy, partly because it will depend on changes in cultural and socio-psychological factors, in particular attitudes to older people in employment, and partly because it will require important changes in policy instruments to achieve changes in behaviour of employers and workers. Governments and social partners will need to co-operate in reforming the legal and institutional framework to encourage such changes in behaviour. Increasing labour force participation also supposes increased efforts to raise investment in human resources, with even greater emphasis on training for the labour force, as set out in the employment guidelines.

The policy measures to be put in place need to address all age groups of the working population, particularly also because the labour force composition will change as a result of demographic ageing. However, the emphasis will be different for various groups across the life cycle. This report, therefore, takes a life cycle approach to labour force participation – whilst distinguishing between men and women - in order to identify the underlying trends and thus to better develop the policy responses which might be used to influence these trends. Particular reference is also made to people with specific labour market difficulties.

2. TRENDS AND DETERMINANTS OF LABOUR FORCE PARTICIPATION

An analysis of recent trends and determinants of labour force participation is presented in the annex¹. The main conclusions are summarised below.

2.1 Main trends in labour force participation

Population ageing will have a major impact on overall labour force participation. Projections for the working age population show that it is expected to rise only by 1.7 million between 2002 and 2010, while the demographic decline is expected to extend for several decades after. Projections of working age population for women and in the 55 to 64 age group indicate an increase of 0.6 million and 5.2 million respectively. Such developments clearly underline the need for offsetting the demographic effect on labour supply by raising the participation rates, particularly for older workers.

The pattern of labour force participation has changed markedly over the last 30 years. Since 1970, participation of women between the ages of 25 and 60 has risen sharply, while

¹ Based primarily on data from the Labour Force Survey and the European Community Household Panel.

participation of men of all ages has declined. Participation in the labour force has risen since the mid-1980s from just under 66% to 69% in 2000, but this overall picture disguises very different trends according to age and gender and different situations between Member States and regions.

By comparison, the US and Japan, with 77.2% and 72.5% participation rates respectively in 2000, perform much better in terms of mobilising their labour supply than the EU as a whole. In the EU comparable participation rates are only found in Denmark, Finland, Sweden and UK.

It is important, when considering these trends, to develop a comprehensive benchmarking of EU performance against the best in the world. This broader perspective would allow to gain a clearer understanding of the nature of the challenges Europe faces, and also of the strategies and measures which offer the best prospects of success.

Young People (15-24)

Participation of young people has been rising since the mid 1990s, reflecting the economic upturn, but also a change in behaviour, with higher numbers of youngsters joining the labour force without necessarily dropping out from education. While many of those working are now combining part-time work with some form of education and training, many still do not do so (8% of the 15-19 year-olds and more than 40% of the 20-24 year-olds are only in employment). The gender gap is relatively small in both these age groups (5 percentage points and 10 percentage points respectively).

Prime-age groups (25-49)

It is in this age group that participation patterns have changed most over the last thirty years, with a slight fall in the participation of men, but a major rise in participation of women, from under 40% to over 70% for this age group as a whole. Participation peaks in this age group and divergences between men and women and between high-skilled and low-skilled workers appear. These developments may influence later trends in participation.

Participation of women has risen steadily over the last three decades, such that the pattern of participation is now similar to that of men. However, a considerable gender gap appears from the age of 25, even for women who have no children. Activity rates for women with children differ according to the age of the children, with a gap of 6-7% points at EU level between activity rates of women with no children (72%), with school-age children (65%) and pre-school-age children (59%). These gaps have narrowed slightly over the 1990s. A further

special case is the situation of lone parents, who in general have activity rates higher than for other women, except in the Netherlands and the UK. Whilst other factors are contributing to this situation, in both of these countries childcare facilities are below average for the Union. Participation in training for the high-skilled is considerably higher than that for the low-skilled whose labour force participation declines faster. 68% of the high skilled are in firms that provide training, compared with only 34% of the low skilled; training incidence among the high skilled is around 40% compared with 17% for the low-skilled.

Older age groups (50-65)

Employment and participation rates of older workers (age group 55-64) in the EU have been declining steadily over the last thirty years. In the year 2000 participation stood at 40.6%. By comparison, the rates for the US and Japan were 59.2% and 66.5% respectively and this explains the overall gaps in participation between the EU and these countries

Participation rates of men, particularly those in low-skilled manual occupations, begin to decline rapidly from the age of 50 onwards, compared with over 60 in 1970. Those for women start to decline earlier, at around 45, but decline less rapidly, and activity rates for women aged 50-60 are still higher than they were in 1970. The fall in participation is partly due to involuntary early retirement associated with economic restructuring and partly to the impact of early retirement schemes. Participation in training declines substantially for workers over 50, with very low levels for the low-skilled. While almost half of older workers do actually work in firms that provide training, less than 15% take part in training measures – either employer-provided or private; only 7% of low-skilled older workers receive training as compared to more than one fourth of high-skilled older workers.

Skills and participation

The higher the skill levels the greater the activity rate at all ages. Participation for high-qualified people is at least 1.5 times higher than the least qualified people. This is more marked for women than for men, although even highly skilled women have lower activity rates than men with similar qualifications. There are variations across Member States, such that the high-skill gender gap is much lower in Nordic countries and Portugal than in most southern Member States.

People with specific labour market difficulties

Certain socio-economic factors are often considered to be associated with significantly lower labour force participation.

The labour force participation of non-EU migrant workers varies widely across countries. The overall activity rate of non-nationals is around 61% compared with around 72% for EU nationals. The largest differences are found at the ends of the occupation/skill spectrum. Activity rates are much higher among EU nationals for high-skilled, non-manual workers, while they are higher among migrants for unskilled manual workers. Disabled people are much more likely to be inactive than the able-bodied as a result of difficulties in entering the labour market and remaining there. Two-thirds of those with some disability are inactive. Even some 50% of those who are not hampered in their daily activities by their disability are inactive.

Regional disparities

Regional activity rates and employment rates are positively correlated. Regions with good economic and employment performance also have higher activity rates, especially among young and older people. In those regions lagging behind, improving employment performance and economic growth will be largely dependent on how well they will be able to maximise their potential labour resources, invest in the education and training of their current workforce and in their ability to attract new human capital.

2.2. Key factors which influence labour force participation²

In the EU as a whole there is a considerable potential labour supply. Some 11 million of the 77 million people currently inactive would currently like to work. The main reasons for inactivity are: personal or family responsibilities (almost 20% of the total inactives), own illness or disability (9%), education and training (27%, almost 90% in the 15-24 group) and retirement (16%, about 90% in the 55-64 group).

There are strong gender differences in these reasons for inactivity. Men are inactive mainly because of education or retirement, while almost half of inactivity for women aged 25-54 is due to family and home care responsibilities. Inactivity because of own illness or disability represents the single most important reason for men aged 25-54 and the second most

² Analysis based on data from the Labour Force Survey and the European Community Household Panel.

important reason for women in that group. The large number of those inactive people currently wanting to work points to serious obstacles to participation including lack of care facilities and support for the disabled. It also underlines the need to ensure an adequate supply of jobs which offer the flexibility (e.g. hours of work) demanded by many people in this group.

Four main determinants of labour force participation have been identified. While each has its own impact, there is a strong interaction between them.

Availability and attractiveness of work

Two forces affect the availability of jobs. At any given moment, the overall macroeconomic situation will influence demand for labour in the economy. On the other hand, the underlying trends in the structure of employment and the functioning of the labour market, including wage rates, will determine the extent to which employers will offer jobs. Furthermore, there may be regional differences in demand for labour reflecting the structure and concentration of activity in the regions.

The fact that suitable jobs are available is the main factor which encourages people to enter or re-enter the labour market. Demand for labour calls forth the supply which itself promotes further demand. On the other hand, the perception that no jobs are available may lead people not even to look for work and become 'discouraged'. For many the characteristics of the jobs themselves, in terms of pay and the quality of work conditions, including safety at work, will be an important factor in determining the strength of the response. For others, particularly for those with specific needs or responsibilities (such as older and disabled workers, carers or young people in training) the choice of working on a part time or flexible basis in particular to reconcile work with family life may be the deciding factor.

Well-functioning labour markets, including with respect to wage formation processes and with respect to employment protection legislation, are in the longer run conducive to job creation. Accordingly, labour market efficiency is a key determinant for the availability of attractive jobs. Wage formation processes should adequately reflect sector and regional productivity, thereby contributing to smooth and even economic development with a high job content. Employment protection legislation should provide adequate social protection for employees while allowing necessary economic restructuring to take place.

The balance of financial incentives

Entering and remaining in the labour market depends on the balance between income from work against income in unemployment or inactivity. The comparison of wages (net of taxes) and benefit levels will determine the magnitude of the unemployment or poverty traps. High unemployment benefits combined with long duration and permissive administration of eligibility rules may undermine incentives for searching or taking up jobs and increase the risk of long term benefit dependency. On the other hand employment-related social security schemes, in particular pension, unemployment insurance and tax credits may provide incentives for job search and the taking up of jobs including a reduction in undeclared work. The potential effect on the labour supply of changes in incentives depends on the particular response of economic agents. Some groups appear to be more responsive to tax/benefit changes than others. Labour supply of prime-age males or those with prospects of higher future wages seem to be the less responsive to changes in incentives arising from tax/benefit systems. On the contrary, partners in couples where one spouse is not working (usually women) and lone-parent families are generally found to be the most responsive to incentives, in terms of participation in the labour market. Tax disincentives affect the participation decision of women particularly when combined with caring responsibilities and in the light of the continued existence of gender pay gaps, which may imply a lower expected income.

Education and training

Skills and competencies determine not only the extent to which those entering or returning to the labour market can take up the jobs on offer or create self-employment, but more crucially, the extent to which those already in work can keep those jobs in a changing technological and economic environment and can advance their careers.

Activity rates are significantly higher at all ages, the more educated the work force. EU-level activity rates in 2000 stood at 87% for the high-skilled, compared to 57% for the low-skilled. Differences are bigger among women: low-skilled women are the only group in the population with more than half of them inactive.

The share of youngsters who have completed tertiary education (i.e. high skilled) has been increasing over time. The number of those in the labour force considered as low-skilled (i.e. less than upper secondary education) appears to be falling but remains substantial.

Prospective skill trends of labour demand as measured in employer surveys clearly indicate that employment of skilled employees will continue to increase while that of unskilled people

will decrease; employment increases will further continue to be strongest in the service sector and most likely in knowledge-intensive sectors, requiring a range of skills such as ICT literacy, communication skills, etc.

A supportive environment

For many people, the decision to participate in the labour market may not depend on the evaluation of the factors described above, but on factors such as geographical mobility and availability of, and access to, day-care facilities, counselling services or relating to the cultural environment.

Availability of care facilities and access to public transport also determine whether libraries and adult education facilities are open to everybody who needs them to improve her or his labour market status. Many of these fall within the domain of public policies or regulations and therefore would lend themselves to policy action – however, not many Member States have taken action in these areas.

Employment Services

The activities of the public and private employment services are a major factor: providing information about jobs available as well as job matching and mobility support can significantly promote labour market activity. Modernisation of public employment services should help to strengthen implementation of activation policies and contribute to raising participation.

Childcare and Elder care

For many women in particular, caring for dependants – children or parents – is a major barrier to working if alternatives are not available. Initiatives taken by Member States are somewhat uneven, often consisting of isolated measures which coupled with limited access have not yet produced a visible impact on female participation, and underline the need to invest more in childcare in most Member States.

The provision of support services in fact has a double effect on participation. In addition to facilitating access to the labour market for those who use these services, they are themselves a major provider of jobs. Since 1995 more than 2 million net jobs have been created in the health care and social service sector

Access to work

Entering or re-entering the labour market is often prevented by the sheer inability to reach a local labour market. Transport systems in rural areas may not be adapted to the routine of

work, and other alternatives may not be available. Location of employment, with easily available and affordable transport, or the development of alternative business opportunities, including e-work activities, may have a significant impact on increasing labour force participation. Improving access to tele-working would contribute to the development of more family friendly working patterns and to environmental aspects.

3. POLICY CONSIDERATIONS

Achieving the Lisbon and Stockholm employment targets requires determined efforts in all Member States, albeit to differing degrees. The analysis above has identified the key challenges and the main factors influencing participation on the labour market. The policy mix to be adopted should reflect the interdependence of these factors in a comprehensive and balanced way.

The progress made under the Luxembourg and Lisbon strategy provides the basis for Member States to pursue policies which encourage participation and improve employability of the labour force. Through a preventive and active approach this strategy promotes employability and effective integration into the labour market. On the other hand, the strategy establishes conditions for an adaptation to structural change, by defining an appropriate balance between security and flexibility on the labour market.

Cyclical downturns should be used for preparing the labour force for the next upswing.

Discouraging activity, in particular resorting to early retirement schemes, must be avoided; such measures, undertaken to address short-term problems arising from inadequate aggregate demand, are usually difficult to reverse when cyclical conditions improve.

The overall aim is threefold:

- to ensure that present and future working generations will remain active as they grow older;
- to attract a substantial part of those currently inactive but able to work, particularly women, to the labour market on a lasting basis;
- to prolong the participation of today's older workers; those over 50 being at high risk of early retirement.

The existing Employment Guidelines and Broad Economic Policy Guidelines contain a number of provisions directly relevant to this aim, be it, for example, with respect to life long learning, active policies, tax/benefit systems, active ageing, quality in work or equal

opportunities. However, as acknowledged in the 2001 Joint Employment Report, most Member States follow a piece-meal approach to the issue and lack a comprehensive strategy to address the challenge of raising labour force participation. In addition very few have chosen to set national targets to meet the Lisbon and Stockholm EU employment targets, which are closely linked to participation.

Within such an approach, immediate priority should be given to a few key initiatives, outlined under 3.1.2 below.

3.1 Proposed action

The proposed action builds on a comprehensive approach identifying the key issues to be resolved in order to increase participation and identify appropriate policy responses including though a number of specific initiatives which can significantly affect labour force participation.

3.1.1 A comprehensive strategy to raising labour force participation

It is for the Member States, depending on their individual circumstances, to define the most appropriate measures for achieving an increase in labour force participation. It is essential, however, for these measures to be part of a comprehensive, dynamic and balanced strategy taking account of all the main factors identified above.

In this context, in accordance with the employment guidelines and recognising that full employment is a goal of overall national policies Member States, depending on their own circumstances, should consider setting national targets for raising employment rates in order to contribute to the overall European objectives of reaching the Lisbon and Stockholm targets for 2010. Publishing national employment rate forecasts would also be a means of helping to situate the Lisbon and Stockholm targets for 2010 in the national contexts.

The strategy should reflect a preventative approach and consider participation over the whole life cycle, and contribute in modernising the labour market. The high number of unemployed and inactive people willing to work (more than half of the 77 million inactive people have expressed an intention to work over the next 5 years) also represents a key challenge which is crucial to the achievement of the overall employment goals. Urgent action is therefore needed to ensure that concrete approaches to retaining workers longer in employment and integrating people in the labour market are developed under the Member States employment strategies.

Such action would need to address the following objectives: more jobs and better quality in work; making work pay; providing higher and adaptable skills at work; and making work a real option for all.

a) *A dynamic, life cycle approach*

The main objective of a comprehensive strategy should be to maximise each person's capacity to participate in the labour market over his or her whole life cycle. Prevention is the key to a successful integration and retention of people in the labour market. The aim is to ensure the positive interaction of economic, employment and social policies with the view to supporting a long-term sustainable working life in which all human resources in society are fully utilised. Thus, the basic educational level achieved has a fundamental long-term impact on participation. Activity rates are significantly higher at all ages, the more educated the work force.

Preventing the erosion of skills throughout adult working life will increase the chances of people remaining in employment longer. High employment and activity rates among the prime age group could be translated into significantly higher employment rates for older workers up to a decade later if a dynamic approach is taken to retain these workers longer in the labour market through better, more flexible working arrangements and quality in work. Moreover, appropriate incentives and services at decisive stages in life, for example the provision of childcare facilities for parents and better reconciliation between work and family responsibilities, will avoid early exits from the labour market.

Under such a dynamic approach, a reduction in participation at certain points in life – young people taking up studies, adults opting for reduced working time – should be weighed against the advantage of greater participation over the whole lifetime. Thus while there is a need to attract young entrants, both male and female, to the labour market, policies should encourage young people to undertake education and training, particularly those dropping out of the education system that are likely to become unemployed or inactive.

b) *More jobs and better quality in work*

Employment creation and the existence of demand for workers will directly influence the decision to participate in the labour market. Such demand depends on a combination of the general macroeconomic situation and the underlying functioning of the labour market as well as on promoting an environment favourable to business creation and self-employment.

The quality of the jobs offered will have an influence on entry into the labour market, but more particularly on the decision to stay in a job and in the labour market. Improving quality in work to provide a safe, attractive and adaptable work environment is a crucial requirement for older workers to remain longer at work and for women to enter or return to the labour market.

The overall attractiveness of a job covers a number of dimensions: satisfaction with pay and working conditions; health and safety at the workplace (public authorities and employers need to assess and control the risk factors relating to an increasingly ageing work force); balance between flexibility and security in contractual relationships (high rates of voluntary part-time work are associated with higher participation rates among women and older workers; conversely, involuntary part-time work and fixed-term contracts are associated with higher exit rates into either unemployment (15%) or inactivity (10%); improving the patterns of working hours to reduce costs; improving product quality and productivity; flexible work organisation and working time arrangements (including homework and telework) that improve access and choice especially of women and older workers and balance between personal and professional life. As they become more widespread flexible forms of work and contractual arrangements in the labour market, reflecting mainly an increasing share of voluntary part-time work, will have a large impact on improving quality in work as well as on job creation and employment rates. They will address the needs of those workers, particularly, women and older workers, for whom flexible working represents a preferred option. Availability of flexible work organisation would contribute to raising older workers' participation and reduce incentives to early retirement. Growth of more flexible job opportunities can be the result of both supply and demand side changes. Naturally, an increased share of such flexible forms of work will have a larger impact on employment rates in terms of persons compared to the full time equivalent measure of employment rates. Self-employment constitutes an additional important possibility for increased labour market participation, not least for women and older workers.

Appropriate adjustments at the workplace are crucial for allowing workers with disabilities to enter or stay in the labour market.

Labour market policies should be designed in such a way that not only ensure stability of decent and good jobs but also help disadvantaged people trapped in low quality jobs to get better ones. Restrictions preventing entry to the labour market in the first place should be

avoided and existing labour market regulations should be reviewed to ensure that they take account of both the need for flexibility, and for security and employability.

c) *Making work pay*

Choosing to participate in the labour market depends, inter alia on individual financial circumstances and the alternatives available. Income from work is balanced against other sources of income and any costs involved. The different effect of tax-benefit and wage-formation systems on men and women should be reviewed for their impact on the decision to take up work and to remain in employment, particularly in family income situations involving means tested benefits. Attention should be focussed on the overall eligibility rules of benefits, including the level and duration, the conditions for benefit receipt and job availability requirements.

Making work pay requires an examination of the interaction of wage levels, particularly at the lower end of the pay scale, and the incentives and disincentives built into the tax/benefit system. The relationship between minimum wages, social benefits and taxation on labour affects the decision of many low-skilled workers to participate in the labour market.

A more employment friendly approach to tax-benefit systems (taxes, unemployment, disability, care benefits, and pensions) should ensure that reforms do not weaken the position of those in the lowest income brackets or facing the poverty trap. Social benefit policies combined with job search make an important contribution to income security and attractiveness of work, whilst shifting from passive to focused active labour market policies is essential to enhance the opportunities of the unemployed and inactive.

Removing contradictory combinations of tax-benefit policies, with public policies encouraging older people to continue work and company policies encouraging people to retire early is important to ensure consistency with long-term fairness and sustainability of public finances in relation to pensions.

d) *Higher and adaptable skills at work*

Ensuring a good match between the jobs available and the skills and competencies of the population through life-long learning is essential if labour force participation is to be maximised at all stages of working life.

Making education and initial training systems more responsive to the needs of the labour market. Much effort should be placed on developing non-formal learning, particularly at the workplace and emphasis given on related issues of access, equal opportunities and encourage

non-traditional learners to take up and/or remain in learning. Continuing to update skills during working life to respond to the changing needs is critical for raising participation and keeping older workers in work longer. Increased attention must also be given to opening access to training to people who are at higher risk of early exit from the labour market, such as low skilled workers and women. Public authorities and companies need to invest more in training for these workers. Increasing training opportunities is particularly important for raising participation in Member States and regions lagging behind. Access to relevant training for unemployed as well as inactive persons (e.g. potential women returnees) should be promoted via a stepping up of active labour market policies targeted to the needs of individuals and employers.

e) Making work a real option for all

The availability and attractiveness of jobs may not be sufficient to make work a real option for all. A number of other important conditions have to be fulfilled, creating a supportive environment for all. This includes the existence of modern and efficient Employment Services and would require strengthening their role in job information and job matching for both the inactive and the unemployed, adapting methods and procedures to the needs and circumstances of women, older people and the disadvantaged. Much attention should be given to cover the needs of disabled and migrants with special difficulties in job search and in accessing the labour market.

There is a challenge for working parents and in particular single parents to find quality, safe and affordable day care facilities for children. Similarly, there is a need for care services for other dependants.

Getting to and from work is a major problem for many to take up an offer of work. Provision of appropriate affordable transport facilities for low income and disadvantaged groups would also have a positive impact on labour force participation.

f) A partnership approach

Public authorities have a key responsibility in developing and implementing a comprehensive approach to raising the levels of participation. However, they cannot succeed without support from a wide range of partners.

Involving the active commitment of social partners is a crucial element to success in the suggested overall policy approach. It belongs to their tasks - with full respect for their autonomy - to negotiate working conditions appropriate to the specific context in order to

keep older workers in work for the benefit of employees and employers as well as for the economy and society as a whole.

Employers, respecting their corporate social responsibility, have important contributions to make by developing initiatives related to objectives such as environment and quality of work, in particular by creating conditions which allow older workers to stay longer in work.

Taking account of different institutional contexts, authorities at the regional and local level should also share responsibility, ensuring coherence between regional and national policies. Education and training providers need to support the training requirements of enterprises by developing tailor made job-training for all workers (men, women, older, low skilled, migrants, disabled people). They should extend collaboration with social partners and the public authorities at national, regional or local level to support training for the unemployed and inactive.

3.1.2 Specific initiatives

Within the comprehensive approach described above, priority should be given to the following initiatives responding to serious deficits noted in many Member States. The contribution of the social partners will be crucial for success.

a) A joint Government/Social partners' initiative to retain workers longer in employment

Such an initiative would focus in particular on:

- access to company training. Employers should assume greater responsibilities and increase investment in their human capital. Special support in training and developing career opportunities should be envisaged for low paid/low skill workers and for the disabled. Such investment should prepare for possible economic restructuring and increase adaptability of workers. Changes in financial incentives leading to later retirement may be counterproductive if older people do not upgrade to the skills needed and adapt to changes in the business and work environment.
- ways to improve quality in working conditions and work organisation with a view, in particular, to improving health and safety at work and encouraging women and experienced workers to stay longer in employment, or re-enter the labour market notably by facilitating re-conciliation of family with work-life, facilitating the choice of younger people willing to combine work with studies and meeting the needs of disabled workers.

- This includes increasing opportunities for flexible forms of work such as voluntary part-time work, other working time arrangements and provision of modern technology for disabled workers.
- focus on prevention rather than cure including changing the view that early retirement is a preferred solution to problems of downsizing and restructuring.

Such an initiative must be based on the understanding that these efforts are of wider interest and benefit to society as a whole and thus may entail a redirection of public funding in favour of this area.

b) *A targeted review of tax/benefit systems*

Comprehensive reforms addressing the combined incentive impact of tax and benefits is an urgent priority in many Member States. Such reforms, as well as addressing the reinforcement of control systems and reviewing eligibility rules, should be targeted towards enhancing work incentives. Emphasis should be placed on:

- reviewing, with a view to removing, incentives encouraging early retirement both for individuals and for enterprises to cope with downsizing and major restructuring. Promote partial/gradual transition to retirement and rewards for those remaining at work after statutory retirement age, and put emphasis on improving work organisation.
- reviewing the effects of current policy combinations affecting participation (incentive systems, penalties for work in alternative employment after retirement); undertake an examination of the incentive structures of means-tested benefits for beneficiaries and their dependants (without jeopardising social policy objectives or education and training incentives) with a view that each member of the household has an incentive to work.

c) *A determined approach to tackle gender gaps in pay and labour market access*

A strong initiative is required to reduce gender disparities in both the public and private sectors. This would involve:

- an overall assessment of the reasons – including differences in productivity - explaining the presence of more or less important pay gaps between men and women in each Member State;
- reviewing constraints on labour market choices for women and men, in particular in connection with education systems, employer recruitment practices and the existing organisational and work cultures.
- reviewing job classification and wage formation processes to eliminate gender bias and to avoid any under-valuation of work in women-dominated sectors and occupations, improve

statistical and monitoring systems, increase awareness-raising and transparency on pay gaps.

d) *Promoting participation of persons with care responsibilities*

Caring responsibilities are a major obstacle to labour force participation, particularly for many women, in a number of Member States. Efforts should concentrate on:

- developing childcare services (without jeopardising social policy objectives supporting care provided within families) in order to facilitate the further integration of parents, especially women, into the labour market; at the same time as the availability of such services, it is important to ensure their affordability and high quality standards; and
- adapting healthcare and eldercare facilities focusing more on making the care system more responsive to the needs of an ageing population.

e) *Reviewing efforts to reduce school drop-out rates*

The Employment Guidelines call on Member States to develop measures aiming at halving the number of early school leavers by 2010. Emphasis should be given to:

- devising effective measures, in the context of social inclusion policy, to prevent drop-out and help early school leavers re-enter a learning situation in formal and/or non-formal education and training. Such measures should address the specific needs of young disabled people and young people with learning difficulties. Training programmes would be developed involving partnership to bring these closer to school and the world of work.
- improving access and promoting infrastructure/training facilities responding to the specific needs and circumstances of this group of learners, in partnership with various public sector actors.
- developing special training programmes tailored to the needs and circumstances of young migrants having particular difficulties integrating into education systems and in accessing and adapting to the labour market.

3.2 Taking the agenda forward

As the Laeken European Council noted, achieving the employment rate targets agreed at Lisbon must be the first objective of the European Employment Strategy. The challenge of increasing participation can be approached with more vigour, building on the effective implementation of the labour market reforms under the Employment Guidelines and the Broad Economic Policy Guidelines. The Employment Guidelines, particularly with the recent

emphasis on employment rates, job quality and lifelong learning, provide the framework for developing a comprehensive approach to stimulating the labour force participation of men and women across all ages. By putting an emphasis on growth and stability-oriented macroeconomic policy and on structural reforms, the Broad Economic Policy Guidelines strengthen further the policy framework. The objective of raising labour force participation will remain a priority for future Guidelines and the Commission, in co-operation with the Member States, will continue to study this matter with a view to taking into account the effects of enlargement.

Measures to increase labour force participation and active ageing should take into account the relationship with pensions and health care, including their social objectives and the financial sustainability of their systems. Under the new open method of co-ordination for pensions, Member States will describe their policies to ensure the future sustainability of their pension systems in National Pension's Strategy Reports due to be presented in September 2002.

Promoting a high level of employment participation is one of the common objectives agreed by the Laeken Council as a basis for the method and will, therefore, be addressed in the national reports.

Building on the policy priorities, Social Partners have an important contribution to make in facing the challenge of the ageing population - a priority issue in the Social Dialogue.

Action by Governments and Social Partners will only succeed if they are accompanied by basic changes in attitudes in enterprises and education systems to gender gaps, older workers, as well as to other disadvantaged groups, including migrant and disabled workers. Such a change in attitudes requires a broad mobilisation of society's efforts led by the highest political level, as initiated by the European Council at Lisbon and Stockholm.

Annex

Analysis of Trends and Determinants of Labour Force Participation

The factors which promote or discourage participation are not necessarily the same as those which determine whether someone accepts a particular job or not, or whether they choose to work or be unemployed. The decision to participate in the labour market is a more fundamental choice between being part of the world of work, or not, and the two decisions should not be confused. Moreover, there are two dimensions to the participation decision itself entering the labour market, and remaining in it. The factors which encourage people to enter the labour market are not necessarily the same as those which will make them stay in the labour market once they are in. The first set of factors apply principally to young people and women returning to the labour market, while the second set of factors apply mainly to older workers (both men and women). With demographic developments, there is a tendency for this second issue to become more important in terms of promoting overall participation.

Trends in labour force participation

The basis for the analysis is the working age population, the whole population aged 15-64. The share of the working age population who are employed, or unemployed and seeking work (ILO definition) is the active population. Activity rates, or participation rates, are the active population in any age or sex group relative to the working age population of the same age and sex.

The demographic changes will have a major impact on labour force participation and, as projections for the working age population up to 2010 indicate, the increase between 2002-2010 is expected to be only 1.7 million (Table 4). The pattern of labour force participation has changed markedly over the last 30 years (Graph 1). Since 1970, participation of women between the ages of 25 and 60 has risen sharply, while participation of men has declined at all ages, and especially at the lower and upper end of the age distribution. By comparison with the labour force participation rates for 2000 of the US (77.2%) and Japan (72.5%), the EU has both lower participation rates overall and for older workers, while participation rates of women in the US (70.8%) are much higher than in both the EU and Japan (Table 5). Employment rates and full-time equivalent employment rates in the EU are presented in Tables 4 and 6 respectively.

Labour force participation over the life cycle

Young people (15-24)

The age and point at which young people enter the labour market is primarily determined by the final level of full-time education they reach. This may also be initially combined with various types of employment, such that the transition from education to working life may in fact be a process rather than a straightforward change. At this point in the life cycle there is little or no gender gap in participation rates, as the decisions which influence women's participation in the labour market have not yet come into play.

In the early 1990s, there was a considerable fall in participation of young people which was largely matched by a rise in participation in education and training. In the late 1990s, there was some pick up in the participation of young people. This picking up appears to have occurred for each of the individual age groups in the 15-24 bracket during 1995-2000, particularly for younger males. Furthermore, this rise seems to be associated with a combination of part-time work and some form of training. Some 48% of young workers declared in 1995 that the main reason for having a part time job was related to undergoing school education or training. On the basis of available 2000 data, this proportion has gone up by over 13% points to about 61% in the EU as a whole.

Among the 15-19 age group, participation is considerably lower than it was in 1970, and almost all of those who are inactive are in some form of education and training. In addition, of the 24% who have a job, two-thirds are also undergoing some form of education or training. In the 20-24 age group, the proportion of the population who are inactive falls to 34% (almost identical to 1970), but just under 80% are still in education and training, and a quarter of those in employment are also undergoing some form of education and training.

Many young people still leave the education system without having completed upper secondary education - generally considered to be the minimum level required for adaptability in the labour market over the life cycle. Despite some improvements over recent years almost 25% of those in the age group 25-29 have not completed upper secondary education and 18% of the 18-24 are drop-outs from the education system.

Prime-age groups 25-49

It is in this age group that participation patterns have changed most over the last thirty years. In 1970, overall participation peaked before the age of 25, at over 68%, in 2000, the highest

participation rates could be observed in the 25-49 age group, at over 80%. Within this overall pattern, however, there has been a slight fall in the participation of men, but a major rise in participation of women, from under 40% to over 70% for this age group as a whole. Participation of men in the labour market reaches its peak during this age group, particularly after the age of 30, and generally remains high throughout the period. This trend has effectively not changed since 1995 (Graph 2). Participation of women has increased in all age groups since 1995.

There is still a considerable gap between activity rates of men and women at all ages even those who have no children (Table 1 and Graph 3). Activity rates of women also differ according to the age of children, (Graph 4). In the mainly southern countries female activity rates are low overall, (except Portugal) and there is little difference according to the age of children. In Germany and the UK, there is an almost 20% point gap between the activity rates of women with pre-school-age children and school-age children. In France on the other hand, while activity rates overall are similar to those in Germany and the UK, there is a decline in activity of women with pre-school age children, but there is almost no difference in the activity rates of women without children and with school-age children. These distinctive differences point to the significance of the availability of child-care and other care provisions for raising the participation rates of persons with care responsibilities - at the present mainly women. This suggests that services provided for pre-school age children would make a difference to activity patterns.

Older age groups

Overall participation now declines much faster than it did in 1970, when a steeper decline was observed only for the over 60 age group. Participation of both men and women decline sharply in this age group, although activity rates for women aged 50-60 are still higher than they were in 1970, and are only slightly below for the over 60s. Activity rates of men aged 55 and over are considerably lower than they were in 1970.

Participation rates of men begin to decline, often quite rapidly, from the age of 50 onwards; much of this is due to enforced redundancy with the decline in jobs in manufacturing, particularly during periods of high job losses, combined with the difficulty, particularly for lower-skilled men, of finding re-employment even in an upturn.

Participation of women declines from about the age of 45 onwards, but generally declines

more slowly than for men until the age of retirement. For men, this decline is sharper and earlier for both medium and lower skilled, from before the age of 50 until 60. For women, the decline sets in earlier for lower skilled, from 45 on, but from the age of 50 onwards, the decline is much sharper for high and medium-skilled (Graphs 7 and 8).

Factors which inhibit labour market integration

Certain socio-economic factors are often considered to be associated with significantly lower labour force participation.

Immigration

The participation of migrant workers varies widely across countries and by skill level. The activity rate of non-nationals overall is around 61% compared with around 72% for EU nationals (Graph 9). Differences in participation are most marked at the high and low ends of the occupational/skill spectrum. Activity rates are much higher among EU nationals for high skilled non-manual workers, and to a lesser extent among medium-skilled non-manual workers, while the opposite is true of unskilled manual workers (Graph 10).

This is also reflected in the sectoral distribution of employment of non-nationals (Graph 11). The share of employment of non-nationals is higher than for nationals in 5 sectors, 3 of them substantially: hotels and restaurants, private households, hotels and restaurants, construction and real estate and renting.

Disability

There is considerable evidence that disabled people find it more difficult to enter the labour market, and to remain there. Disabled people are much more likely to be inactive than the able-bodied. More than half of those with fair health status are inactive while more than three quarters of those with bad or very bad health status are inactive.

- Almost two thirds of all those declaring chronic physical or mental health problems, illness or disability are inactive (one quarter of Europeans declare that they have such problems.
- While more than 80% of the severely hampered are inactive, and almost two thirds of those hampered to some extent, even some 50% of those not hampered in their daily activities are inactive.

Regional imbalances

Given the high level of correlation between them, regions with high employment rates also have higher activity rates, especially among young and older people.

In those regions lagging behind, improving employment performance will be largely dependent on how well they will be able to maximise their potential labour resources and also in their ability to attract new human capital. In the low employment growth regions, the working age population contracted at about 0.2% a year over 1996-2000, whereas in the high growth regions the population increased at an annual rate of 0.5%. These dynamics are also reflected in an increase in the average skills, which has been more rapid for those regions where employment and population growth have been comparatively higher. In 2000, more than half of the working-age population in the low employment regions are low-skilled, compared to less than a quarter in the high employment regions.

Key factors, which influence labour force participation

The preceding analysis has shown that there is a considerable potential labour supply in the EU. 31.1% of the working-age population is inactive (i.e. 77 million people, 50 million women and 27 million men). Even excluding the 15-19 age group, many of whom are in education and training, this figure is 53 million (Table 2 and Graph 12).

Many of these would actually like to work. According to the Labour Force Survey, some 14% of those currently inactive would like to work now. Taking a medium term perspective, this figure rises considerably. At least half of both men (56%) and women (49%) currently not in paid work wish or plan to take up work within the next five years, compared to one fifth undecided and less than one third who have no intentions to take up work in the future³.

The principal determinant of labour force participation is the availability of acceptable and appropriate jobs. This response will be stronger, the closer the match between the types and nature of jobs on offer and the characteristics and wishes of potential workers. Foremost among these is the match between the sector and occupation and the skills and qualifications of the potential employee. Subsequently, the decision to enter the labour force will depend strongly on the balance of financial incentives between working and remaining inactive in the context of the individual circumstances. Finally, a whole series of other considerations, largely in the form of barriers, may prevent someone from participating in the labour market. All these factors are inter-related, and in practice operate as a whole nexus.

³ [European Foundation for the improvement of Living and Working Conditions, "Employment Options and Labour Market Participation 2000".](#)

Availability and attractiveness of work

People with care responsibilities may withdraw from looking for paid employment focussing on household labour thereby often reducing their prospects for a professional career or to return to employment altogether. Older people who have lost their job may find it difficult to find a new job, even with much lower pay and conditions, and may just retire early if this is possible.

Sectors

There is a strong link between the growth of jobs in certain sectors and occupations and the availability of the labour supply to fill them. The rise in participation of women over the last decade has been accompanied by a rapid increase in employment of women in the service sector in general and the health and education sectors in particular. Similarly, the trend towards lower physical efforts in many jobs combined with the demographic shift and the improved health of older people is likely to foster the participation of older people.

Attractiveness of jobs

The quality of the job in terms of job satisfaction and working conditions will have an influence on entry into the labour market, but more particularly on the decision to stay in a job and in the labour market. The overall attractiveness of a job covers a number of dimensions, ranging from overall satisfaction to working time to contractual arrangements.

Employment in Europe 2001 reports that drop-out rates from employment into unemployment or inactivity are strongly linked to job quality: those in jobs of low quality (defined as those with lack of training access, lack of job security or low pay/productivity) are at significantly higher risk of dropping out of employment than those in jobs of higher quality. Around one quarter of all and one third of young people in such jobs drop out of employment from one year to another; while men in general and especially low-skilled are at higher risk of becoming unemployed, women are more likely to move into inactivity; women and the young are also over-represented in low pay/productivity jobs and sometimes trapped in this job category out of which more people move into unemployment or inactivity than any other.

In general, transition rates out of low quality jobs into unemployment are 5-10 times higher than out of high quality jobs, and transition rates into inactivity 2-5 times higher. Transition rates into both unemployment and inactivity are considerably higher for older workers in jobs of low quality. Drop out rates from employment to inactivity are three times higher for

disabled than for non-disabled.

High levels of *involuntary temporary contracts* and *part-time* work are also associated with high drop out rates, (some 15% into unemployment and 10% into inactivity). Most people have a strong preference for a permanent contract (70% of unemployed or women returnees and 50% of young labour market entrants), but there is also a relatively high acceptability of temporary jobs among young people (50%). Nevertheless, while many do return after temporary spells, the more spells of inactivity there are, the greater the likelihood that the inactivity may become permanent. Disabled people (severely hampered or hampered to some extent) are slightly more likely to be in part-time jobs and as likely to be on temporary jobs as non disabled.

On the other hand, the ability to work *flexible hours voluntarily* may influence the decision to enter or remain in the labour market later in life. There is massive demand for part-time work among women returnees (2/3 would prefer a part-time job and in total three-quarters would accept such a job) and also 1/3 of young entrants or unemployed would prefer part-time work. Moreover, more than half of all labour market entrants and re-entrants wish to work from home at least some of their working hours; 20% of women returnees wish to work wholly at home

Older workers may desire to withdraw gradually from the labour force by reducing hours. If this option is not available, however, their choices are restricted to complete withdrawal or to bridging activities of lower quality. There is in fact some evidence that older workers have only limited flexibility with respect to working times. Increased flexibility of employment, as measured by the availability of flexible working time arrangements and of part-time jobs and self-employment opportunities, and special working arrangements such as homework or telework would generally increase both older people's labour force participation and the retirement age. Older people are already over-represented in voluntary part-time work.

Three quarters of older inactive people who are looking for a job would prefer a part-time job and one quarter a job with less than 20 working hours per week. The strongest levels of dissatisfaction of older workers are with working hours (23%; 22% of men and 25% of women).

The effect of job characteristics (other than earnings and employer pension systems, which are discussed below) and working conditions on labour supply and labour market transitions of

older people are difficult to evaluate, except insofar as changes in older workers' health status are the most important determinant of older workers' labour market transitions. Older workers can no longer perform dangerous, unpleasant and physically demanding jobs and are often obliged to give them up. Older workers also retire earlier from difficult or complex, and stressful jobs as well as from jobs offering no further career prospects.

Nevertheless, older people who remain in work are more likely to report relatively high levels of satisfaction with their work. Among older workers in employment, more than half show high levels of satisfaction with their job compared to only 8% dissatisfied; rates of dissatisfaction are similar to prime-age employed but much smaller than for young employed. Those in low quality jobs, however, – in particular in dead-end jobs – show much stronger dissatisfaction (almost one third strongly dissatisfied) than young or prime-age workers, while those in jobs of good quality show much higher values of satisfaction (almost two thirds).

Education and training

Education and training has a direct bearing on employment and the functioning of the labour market. It is among the policy priorities throughout the Union with all Member States taking steps towards developing and implementing comprehensive lifelong learning strategies under the European Employment Strategy. In this, the strengthened emphasis on lifelong learning is coupled with increased attention on improving skills and mobility and quality of jobs.

Ensuring a good match between the jobs available and the skills and competencies of the population is essential if labour force participation is to be maximised. This applies at all stages of working life. The basic educational level achieved has a fundamental long-term impact on participation.

In the absence of life-long learning and in-house training in enterprises to upgrade skills over the working life, the risk for older workers of losing their job is that much greater. Moreover, to the extent that workers have skills and competencies, the more those skills can be put to good use. There is also strong evidence that after a certain age, older workers have less access or willingness to undertake training than younger workers.

EU-level activity rates in 2000 stood at 87% for the high-skilled, compared to 57% for the low-skilled; differences are bigger among women; low-skilled women are the only group in the population with more than half of them inactive (Table 3). (Employment in Europe, 2001). The share of youngsters who have completed tertiary education (i.e. high skilled) has been

increasing over time. The number of those in the labour force considered as low-skilled (i.e. less than upper secondary education) appears to be falling but remains substantial (see above). A good initial education is therefore the basis for both entering the labour force for the first time as well as for developing skills over working life. Access to training and lifelong learning to adapt those skills over the working life facilitates the ability to stay in the labour market in the face of changing conditions. Indeed, 'The more you have, the more you get' seems to be the governing principle relating to access to training.

Older workers and low-skilled workers benefit significantly less from training. While almost half of older workers do actually work in firms that provide training, less than 15% take part in training measures – either employer-provided or private; only 7% of low-skilled older workers receives training as compared to more than one fourth of high-skilled older workers.

(Employment in Europe, 2001).

Prospective skill trends of labour demand as measured in employer surveys clearly indicate that employment of skilled employees will continue to increase while that of unskilled people will decrease; employment increases will further continue to be strongest in the service sector and most likely in knowledge-intensive sectors, requiring a range of skills such as ICT literacy, communication skills, etc.

As skills and productivity of older workers decline, training, adaptability to new skills and technology, mobility and wage flexibility gain importance. In their absence, employers might want to avoid the relatively high costs associated with hiring older workers. The impact of new technologies on older workers' employment and retirement plans due to a potential skill-bias of new technologies is also prevalent: If new technologies change job and skill requirements, older workers will be affected differently than prime-age workers because of their older skills; because they have less education on average and their jobs are thus more likely to be made redundant; and also because they will react differently because impending retirement reduces their time horizon as they consider whether to upgrade their skills. There exists some evidence that computer users among older workers – that is those who acquired the skills required by new technologies – are more likely to continue working.

Disregarding the impact of technological change on older workers' employment opportunities might actually lead to wrong policy conclusions: "Policy efforts designed to encourage later retirement might have limited success if older workers face pressure from technological

change. On the other hand, any future delays in retirement, perhaps resulting from rising life spans or changes in Social Security and private pensions, may induce older workers to invest in new skills as technologies evolve." (Friedberg, L. (2001))

Key barriers to the retention and capacity development of older workers and of low skilled workers are their previously cut-short education profiles, the lack of current training opportunities and the lack of appropriate training building on acquired knowledge and on what they can learn best for the job. The short pay-back period for investment in training by enterprises seems to work against older candidates (potential recruits/existing workers), but the higher turnover of young personnel and the change in job content needs to be taken into account. Moreover equal access to training for all workers, male and female, is a major problem both in relation to firm size (SMEs being most disadvantaged) and the worker's training profile (educational attainment for older people and for low skills groups).

Disabled people are equally likely to be in firms that provide training but - in particular the severely hampered - show lower training incidence

The balance of financial incentives

Choosing to participate in the labour market will depend critically on individual financial circumstances and the alternatives available. Income from work must be balanced against other sources of income and any costs involved. The level of wages will interact with levels of social support and the tax system to determine whether there is a financial incentive to work. Therefore, wage levels, taxation and benefit schemes need to be taken into account when analysing the overall impact on labour force participation.

Tax and benefit systems (individually and through their interaction) influence all labour market transitions, that is labour force participation, the schooling/work choice, the early retirement decision and the duration of unemployment. Although recent reforms show that the emphasis is clearly placed on tax systems, two features of the tax -benefit interaction can have a significant impact on labour supply. The first one is the benefit level relative to earnings and its effect on the participation decision, which can give rise to the so-called unemployment trap. The second one is the change in disposable income (taking into account the combined effect of increasing taxation and withdrawal of means-tested benefits) as earnings rise, and its impact on work effort or hours worked (leading to the poverty trap).

The actual effect on the labour supply depends on the particular response of economic agents

to changes in incentives. High level unemployment and other relevant benefits combined with long duration and permissive administration of eligibility rules may undermine incentives for taking up jobs and increase the risk of long term benefit dependency. On the other hand access to employment-related social security schemes in particular unemployment insurance may well provide incentives for taking up (or transforming undeclared work into) declared employment. Moreover, unemployment insurance implies for beneficiaries much stronger labour market attachment than other social benefit schemes particularly if employment conditionality is taken seriously and job search is encouraged.

Some groups appear to be more responsive to tax/benefit changes than others. For instance, labour supply of prime-age males or those with prospects of higher future wages seem to be the less responsive to changes in incentives arising from tax/benefit systems. On the contrary, partners in couples where one spouse is not working (usually women) and lone-parent families are generally found to be the most responsive to incentives, in terms of participation in the labour market. Tax may influence the decision as to whether or not a second member of the household enters the labour force and may encourage or discourage part-time work. The responsiveness to tax/benefit changes in terms of entry into or exit from the market is higher than in terms of hours supplied.

For older workers, despite various policy initiatives by the MS (as reported in NAPs) there is little evidence that these have resulted in significant increases in labour force participation among older workers. To a large extent this reflects a deep-rooted early retirement culture and the persistence of early retirement schemes (often coexisting with schemes aiming at extending older workers working life) and negative attitudes which remain not only among employers but also trade unions and policy makers. Early retirement schemes become attractive where no alternative employment is available.

Different forms of retirement and related patterns of older workers' labour market transitions can be distinguished: first, a one-time transition from a full-time career job to complete labour force withdrawal. This is by far the most common situation in Europe. Second, partial retirement (mixing retirement from the full-time career job with further employment or various forms of unemployment and disability benefits without withdrawing completely from the labour market). Evidence from the US suggests that this is most frequent at the two ends of the job quality spectrum. Thirdly, retirement – most often redundancy due to restructuring –

combining periods of inactivity (job search and retraining) with periods of work. Which of these actually occurs will depend on a number of factors. Early retirement and disability schemes may substitute for unemployment benefits in certain situations and, hence, the level of these benefits is important. Usually, levels of retirement and disability benefits compare favourably with unemployment benefits, and the periods for which they are granted are longer. Furthermore, some unemployment-related programmes are, *de facto*, early retirement schemes, in that they do not have any job-search requirement for older workers. For older workers, replacement rates of social security pensions relative to earnings and effective tax rates on work are relevant to the retirement decision, and their interaction can give rise to high “effective tax rates “ on continuing to work. Nevertheless, for half of all older people in the age group 55-64, social benefits are the main income source.

Health insurance regulations and employer-provided pension schemes might induce some workers to delay their departure from career jobs and induce others to find bridge jobs until full retirement begins. On the other hand, private pension plans generally encourage full rather than partial retirement, since retirement benefits are typically based on annual average earnings averaged over the last three or five years of employment, and full retirement may be required for receipt of any retirement benefits. Higher savings and wealth of older workers should further be positively correlated to earlier retirement and to complete labour force withdrawal.

Financial incentives and social security regulations are not the only determinant of older people's labour supply. Non-pecuniary factors play an important role in their decision to remain or re-enter the labour market⁴.

⁴ Haider and Loughran (2001), among others, in a study of elderly (65 and older) labour supply in the US, find that "non-pecuniary concerns dominate the labor force decisions of the elderly" who generally respond inelastically to wages. The authors therefore conclude that "policies that affect the financial return to work for the elderly will have less impact on labour supply in this population than policies targeted at improving the non-pecuniary returns to work."

A supportive environment

For many people, the decision to participate in the labour market may not depend on the evaluation of the labour market factors described above, but may be influenced by a series of other factors. Such factors determine how and whether people can reconcile time spent working with other demands such as household work and shopping in particular and care for children (depending on school hours).

Childcare and Elder care

For many women in particular, caring for dependants – children or parents – is a major barrier to working if alternatives are not available. 14.1% of all inactive people would like to work, (10.9 million people, of which 7 million women). 30% of these women are prevented from working by personal or family commitments.

The provision of support services in fact has a double effect on participation. In addition to facilitating access to the labour market for those who use these services, they are themselves a major provider of jobs. Since 1995 more than 2 million net jobs have been created in the health care and social service sector

Mobility support

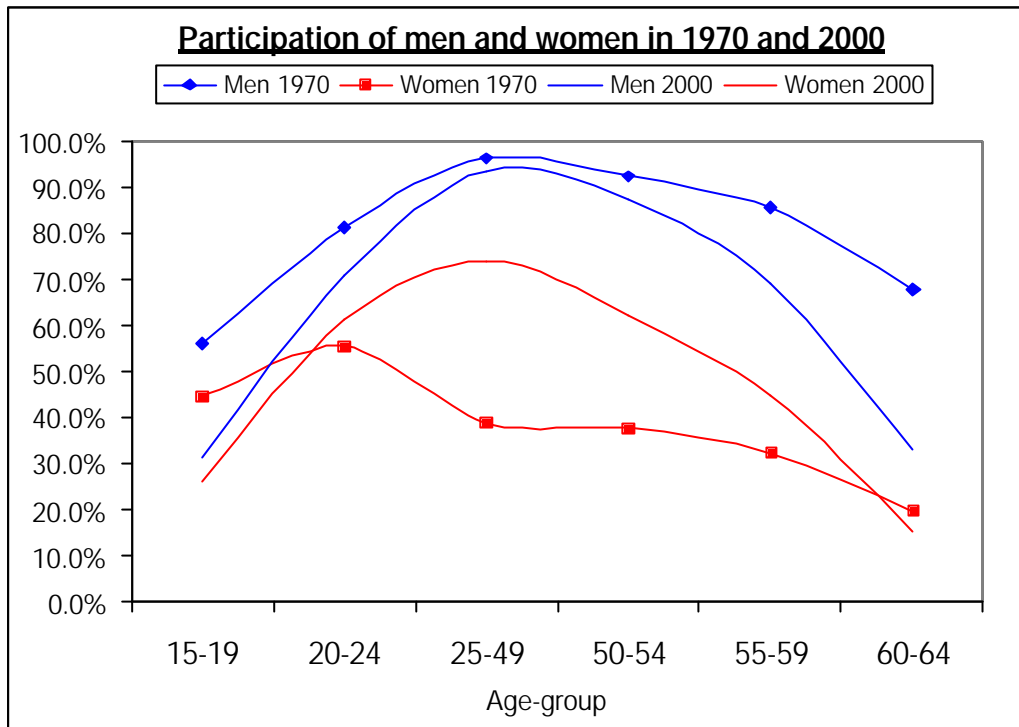
People may not have access to a local labour market, but may nevertheless not wish to move. According to a recent Eurobarometer, 54% of the 37.5% Europeans that have moved in the last 10 years did so because of family/personal reasons, 18% for housing reasons and 15% for work reasons.

About 46% of the 18.5% that think they will move in the next 5 years would do so because of family/personal reasons and 27% for work reasons. 34% of Europeans would prefer to be unemployed and remain in their same region of residence than move to another region and get a job. 38% will prefer to move to another region, but this willingness declines sharply with age, and 16% respond that that will depend on the job they can get.

More than 40% and 29% of Europeans responded that a "better financial situation" and "better career prospects", respectively, would encourage them to move.

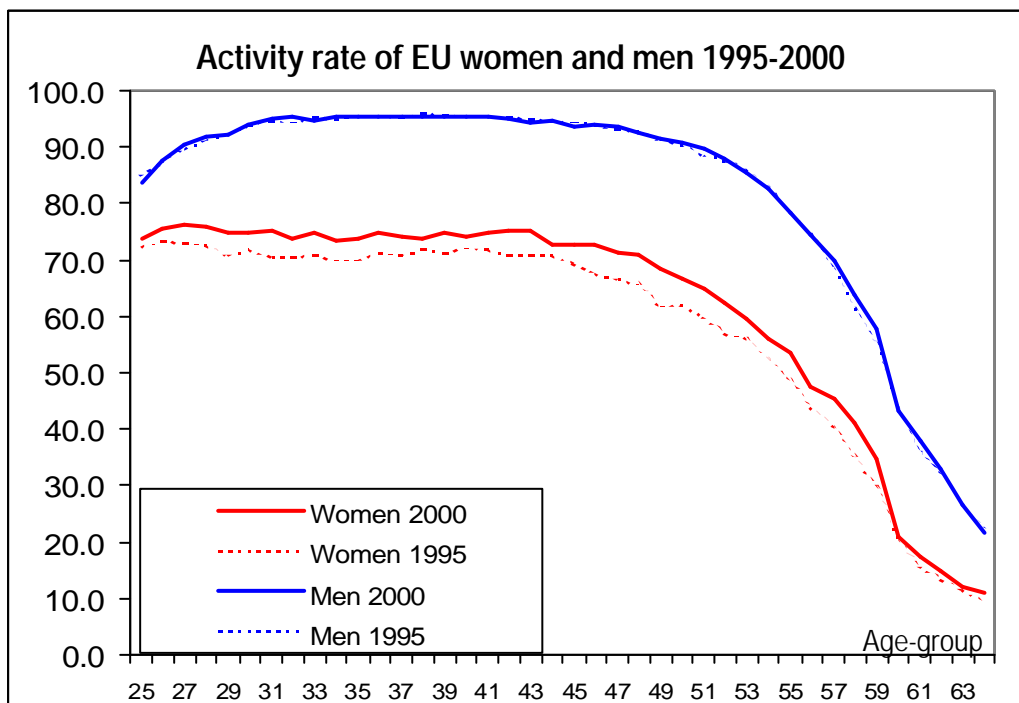
All these facts on mobility and commuting suggest that location of employment and easily available and affordable transport, or the development of business opportunities, including e-work activities, in local communities, may be of importance for increasing labour force participation.

GRAPH 1



Source: Labour Force Survey, Eurostat. ILO for 1970.

GRAPH 2



Source: Labour Force Survey, Eurostat.

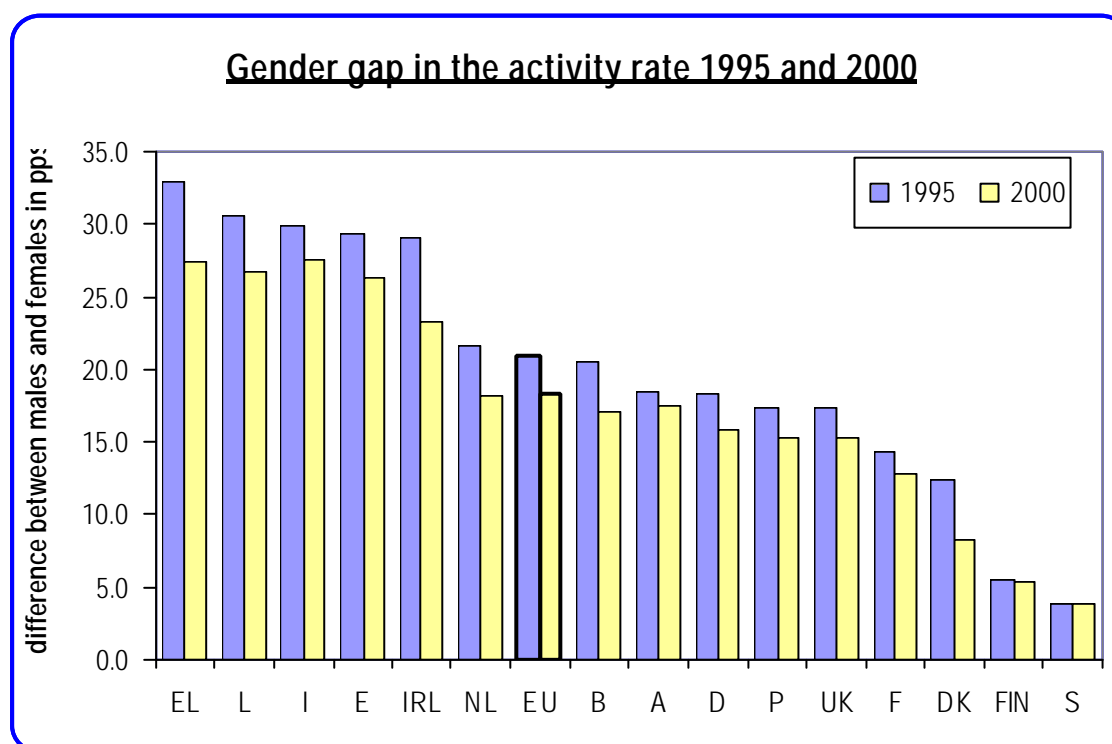
TABLE 1

	Gender-gap in participation rates in the EU by 5-year age groups in 2000										
	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	15-64
A	11.7	7.2	8.6	15.5	17.2	18.8	17.5	24.2	37.8	9.2	17.5
B	2.8	9.7	9.6	14.0	17.3	18.4	24.4	30.9	28.9	11.6	17.2
D	7.3	6.8	13.2	19.0	18.2	15.4	14.9	18.7	20.5	16.9	15.8
DK	2.8	10.2	9.5	10.4	5.8	2.3	7.4	6.9	15.3	15.7	8.2
E	6.0	8.4	11.3	25.3	30.2	32.7	39.6	47.5	47.5	26.7	26.4
FIN	-2.8	8.9	13.7	13.9	6.7	2.8	0.1	1.6	-2.6	5.5	5.3
F	7.5	7.6	13.2	17.4	16.0	14.7	16.0	17.4	12.3	0.8	12.8
EL	2.6	11.8	20.9	26.1	30.5	33.6	40.3	45.3	40.7	24.7	27.4
IRL	8.0	11.4	10.1	23.9	29.5	31.2	33.0	38.8	38.9	34.2	23.4
I	4.9	12.0	18.3	29.3	31.7	36.5	40.0	41.4	29.2	22.8	27.6
L	3.9	10.4	9.8	25.1	33.7	31.8	37.5	40.0	37.1	4.0	24.7
NL	1.4	3.8	12.7	18.2	20.8	21.4	21.8	30.4	31.1	15.4	18.3
P	7.0	12.3	8.4	13.5	12.2	17.2	19.0	26.3	24.8	18.1	15.2
S	-4.9	7.1	4.5	5.6	3.7	1.6	3.6	3.2	7.1	6.8	3.8
UK	1.9	13.6	17.3	19.6	18.3	13.8	10.8	13.5	17.1	24.4	15.2
EU15	5.1	9.6	14.1	20.5	20.9	20.4	21.7	25.3	24.5	17.5	18.3

Note: It refers to the difference in percentage points between the participation rate of males and of females in each of the different age-groups.

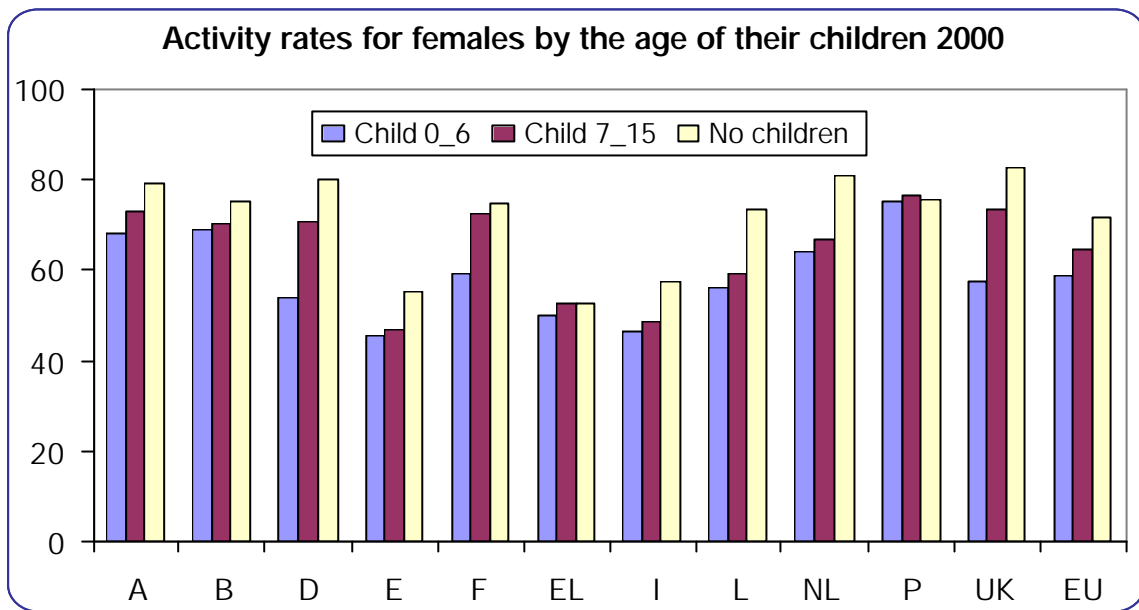
Source: Eurostat, LFS.

GRAPH 3



Source: Labour Force Survey, Eurostat.

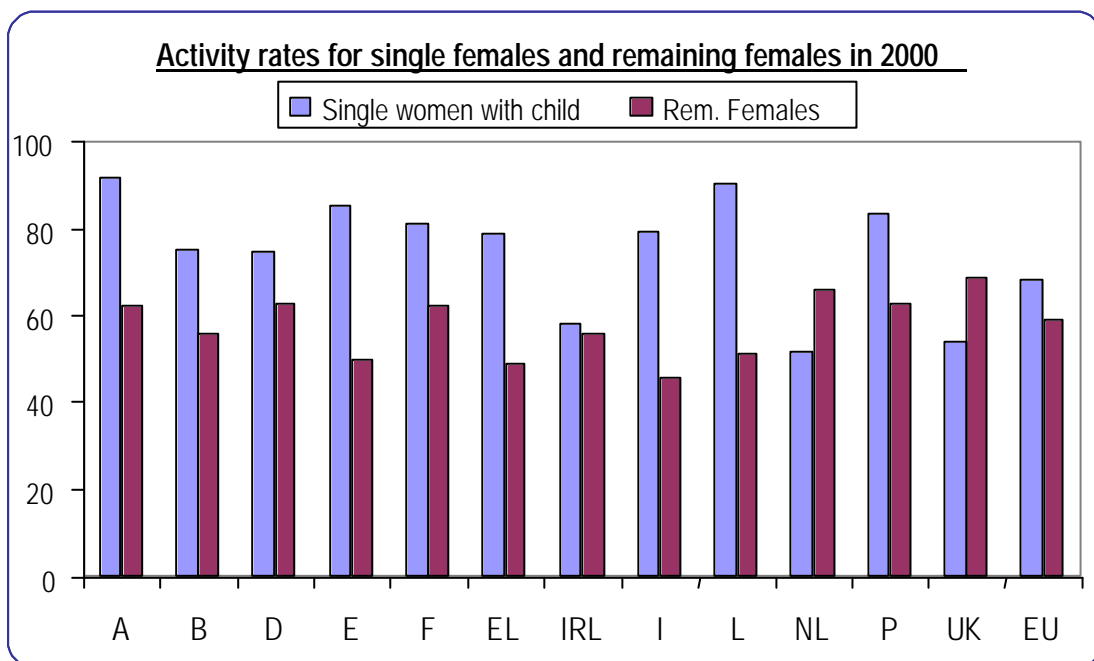
GRAPH 4



Note: It refers to the age of the youngest child (e.g. females with children aged 2 and 10 will be included only in the first group, 0-6)

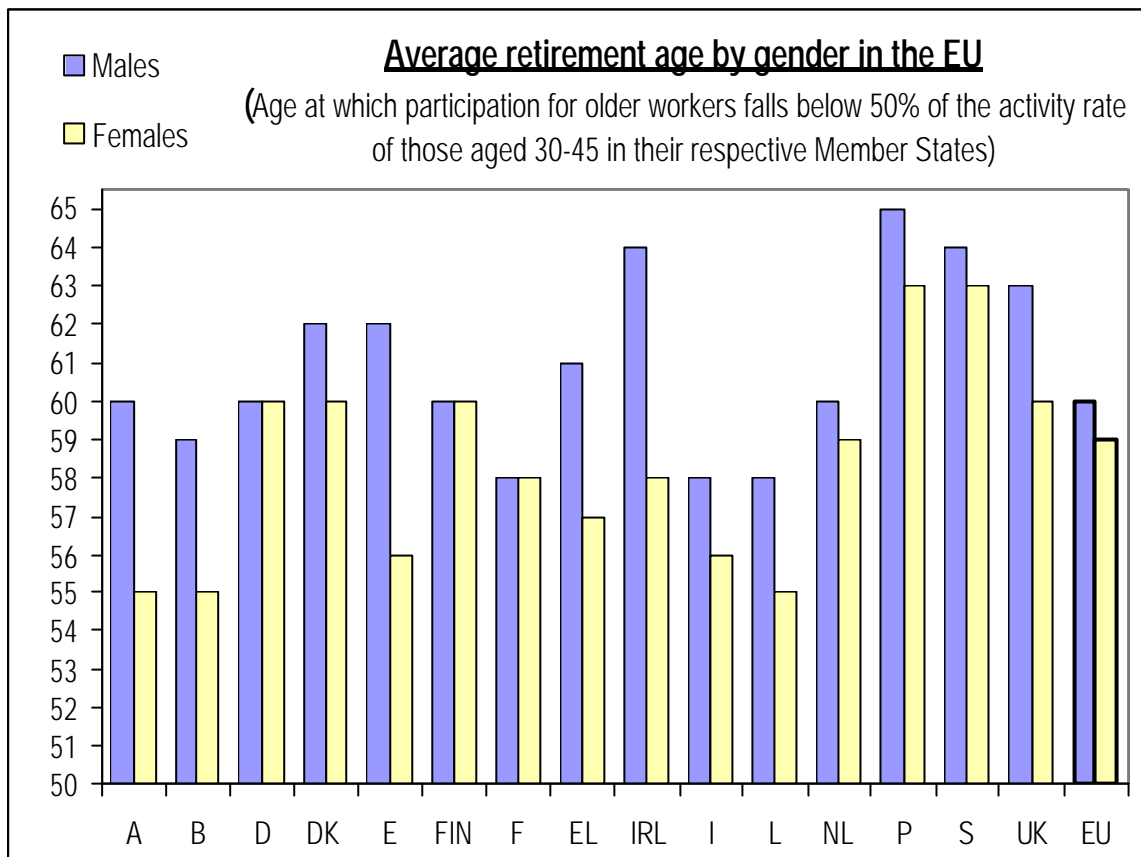
Source: Labour Force Survey, Eurostat

GRAPH 5



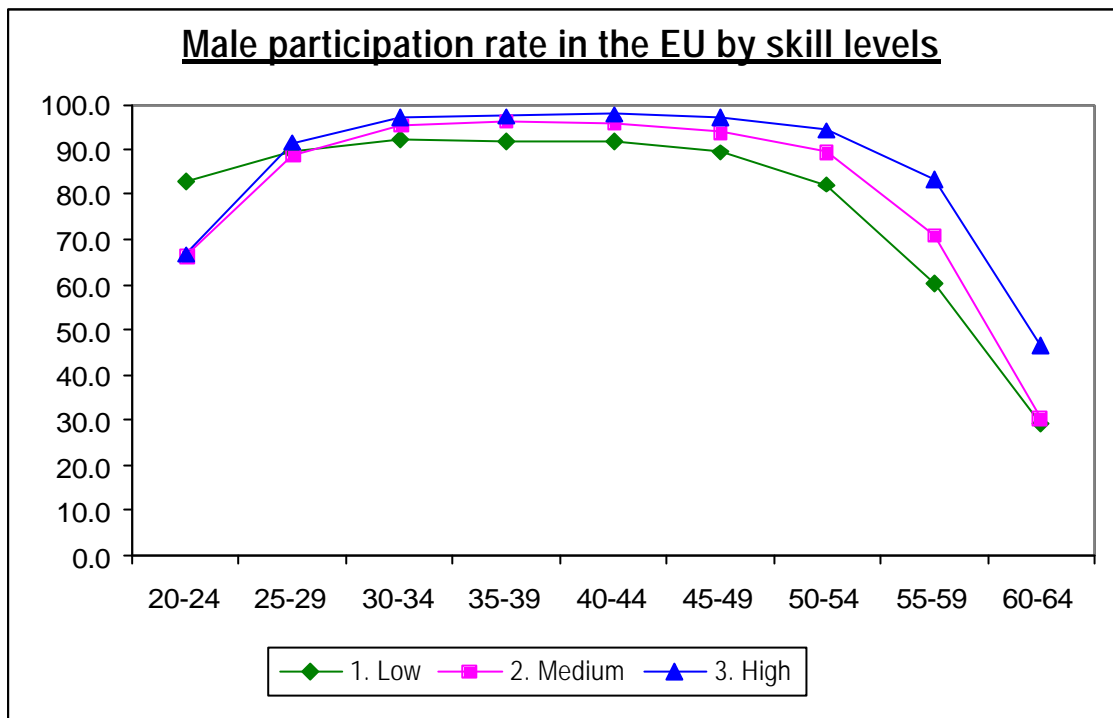
Source: Labour Force Survey, Eurostat.

GRAPH 6



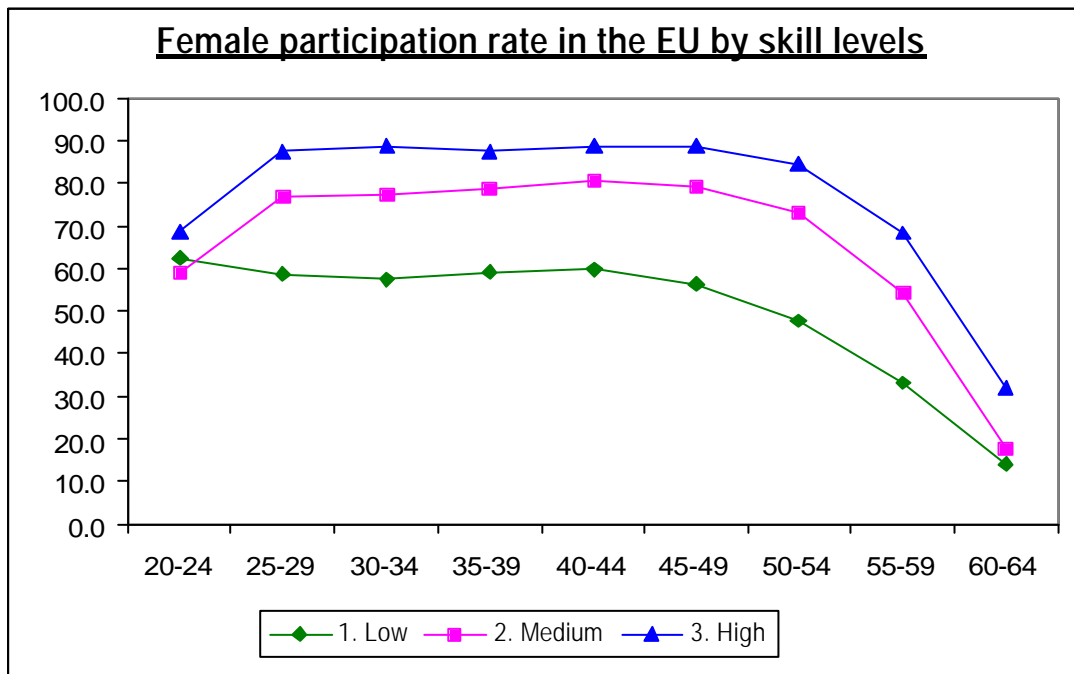
Source: Raw data originating from the Labour Force Survey, Eurostat.

GRAPH 7



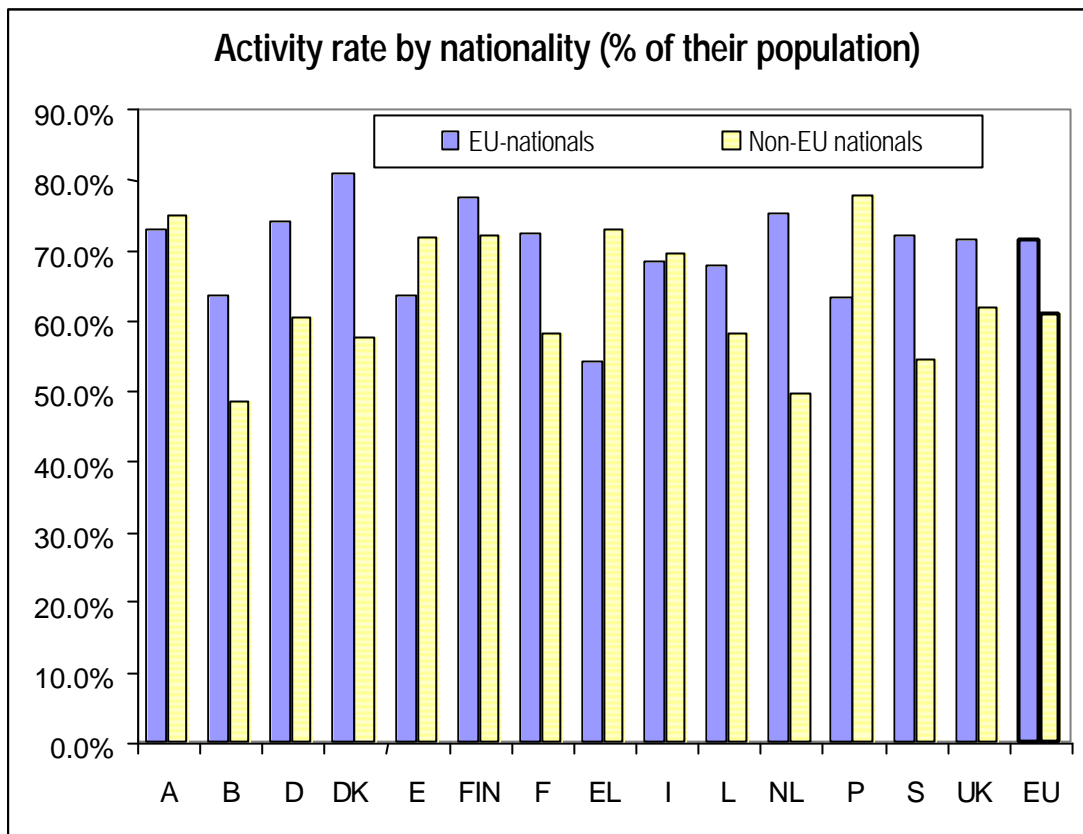
Source: Labour Force Survey, Eurostat.

GRAPH 8



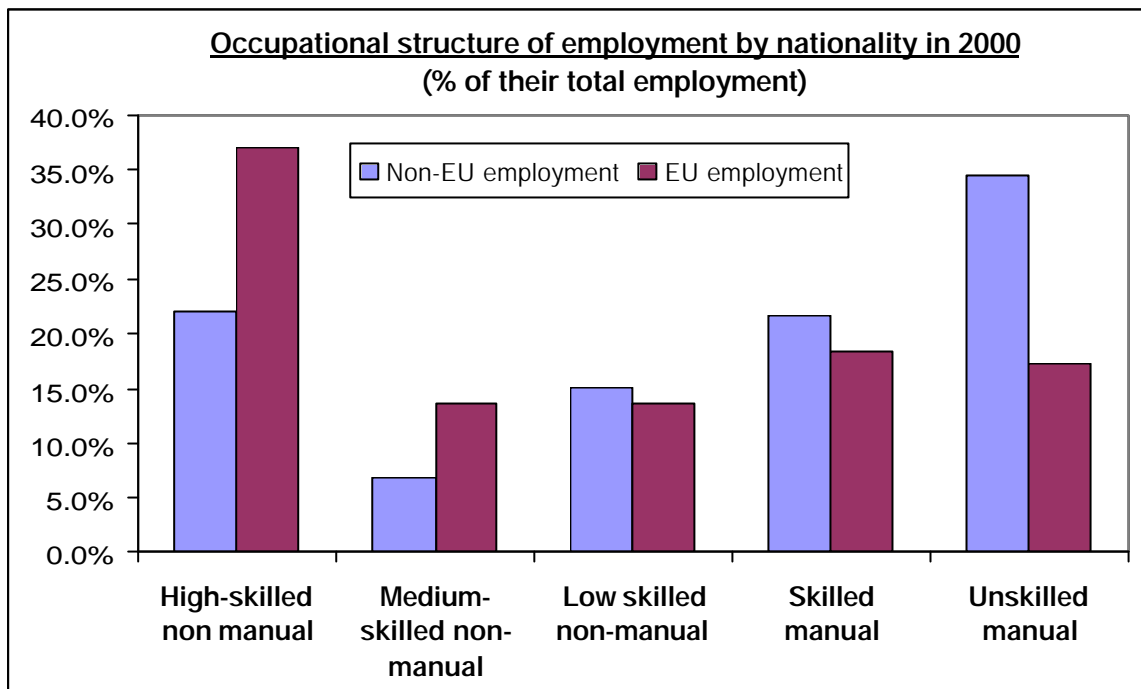
Source: Labour Force Survey, Eurostat.

GRAPH 9



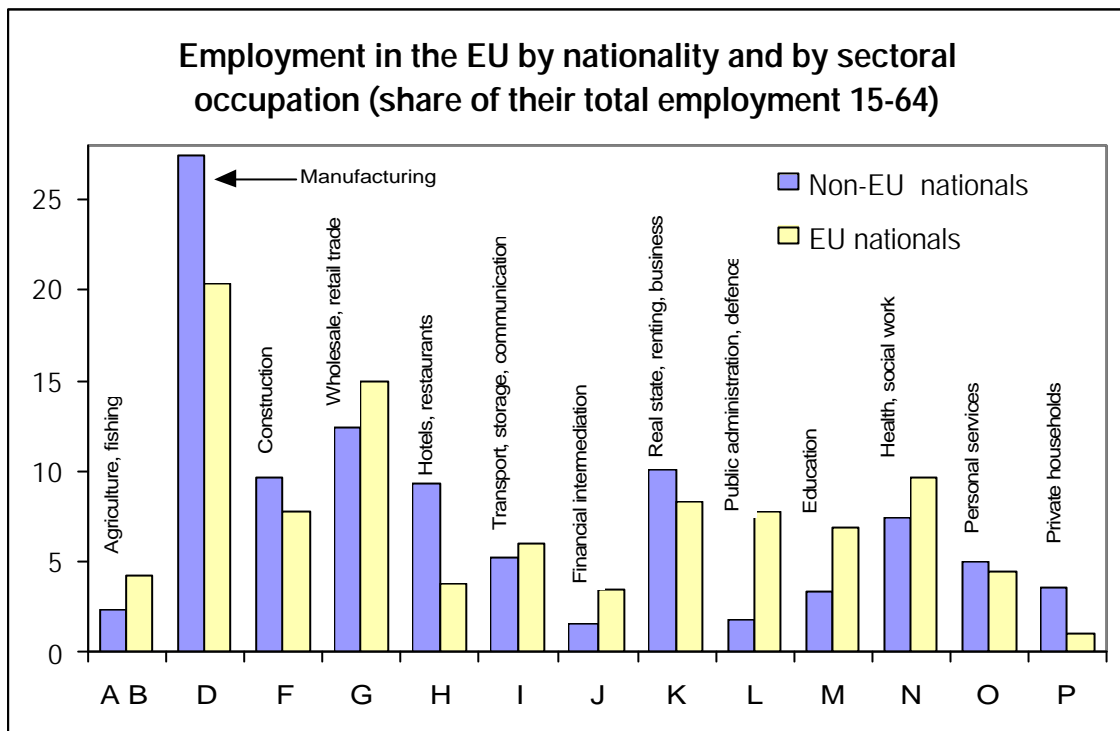
Source: Labour Force Survey, Eurostat.

GRAPH 10



Source: Labour Force Survey, Eurostat.

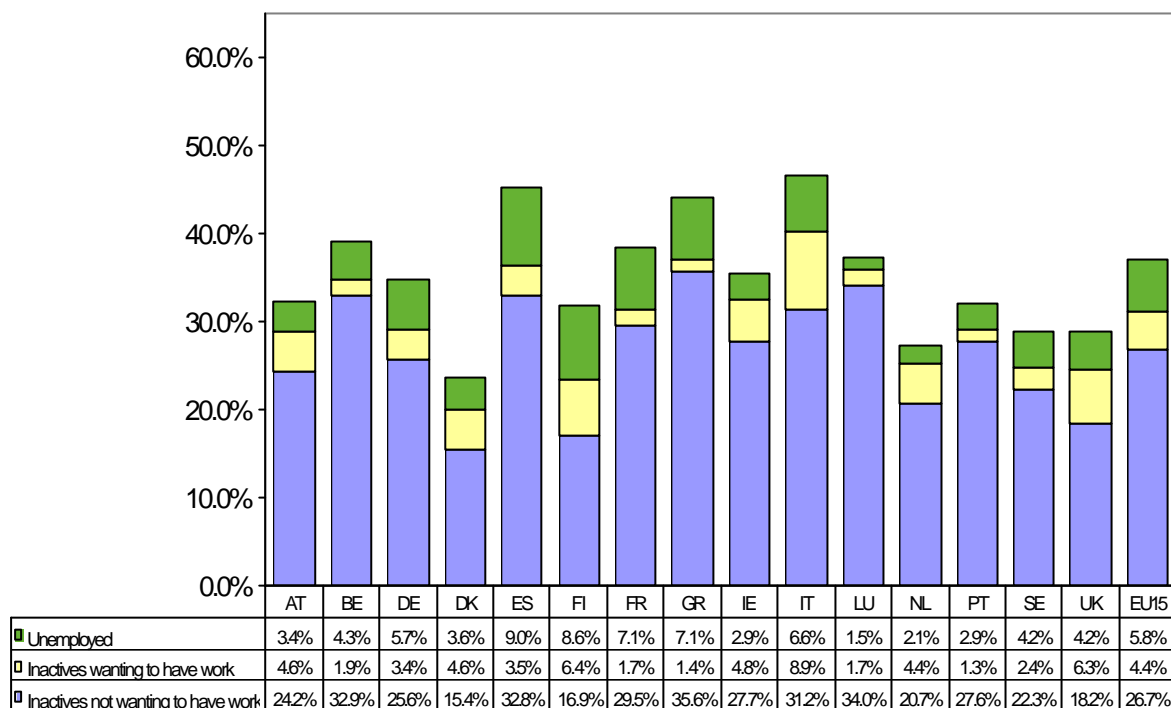
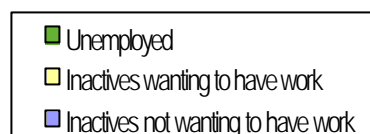
GRAPH 11



Source: Labour Force Survey, Eurostat.

GRAPH 12

**People not in work in 2000
(% of Working age population)**



Source: Labour Force Survey, Eurostat.

TABLE 2

Inactivity of the population aged 15-64 in the EU by gender and reasons in 2000																	
	Person is seeking employment (passive job seekers)	Person is not seeking employment because:														Total number of inactive 15-64	Want to have work (including passive jobseekers)
		Own illness or disability	Want to have work	Personal or family responsibilities	Want to have work	Education or training	Want to have work	Retirement	Want to have work	Belief that no work is available (discouraged workers)	Want to have work	Other reasons	Want to have work	No reason given	Want to have work		
Total (,000)	3105	6783	21.0%	14938	14.9%	20882	8.5%	12103	2.2%	1523	45.4%	6930	12.9%	10747	4.7%	77047	10912
Males (,000)	1260	3461	23.0%	373	29.2%	10223	8.4%	6279	2.6%	493	36.1%	1358	24.5%	3665	5.1%	27132	3898
Females (,000)	1845	3323	18.9%	14565	14.5%	10658	8.6%	5824	1.7%	1030	49.8%	5572	10.1%	7082	4.6%	49915	7014
% of total inactive	4.0%	8.8%	1.8%	19.4%	2.9%	27.1%	2.3%	15.7%	0.3%	2.0%	0.9%	9.0%	1.2%	13.9%	0.7%	100%	14.1%
% of male inactive	4.6%	12.8%	2.9%	1.4%	0.4%	37.7%	3.2%	23.1%	0.6%	1.8%	0.7%	5.0%	1.2%	13.5%	0.7%	100%	14.3%
% of female inactive	3.7%	6.7%	1.3%	29.2%	4.2%	21.4%	1.8%	11.7%	0.2%	2.1%	1.0%	11.2%	1.1%	14.2%	0.6%	100%	14.0%
% of WAP	1.3%	2.7%	0.6%	6.0%	0.9%	8.4%	0.7%	4.9%	0.1%	0.6%	0.3%	2.8%	0.4%	4.3%	0.2%	31.1%	4.4%
% of male WAP	1.0%	2.8%	0.6%	0.3%	0.1%	8.3%	0.7%	5.1%	0.1%	0.4%	0.1%	1.1%	0.3%	3.0%	0.2%	21.9%	3.1%
% of female WAP	1.5%	2.7%	0.5%	11.7%	1.7%	8.6%	0.7%	4.7%	0.1%	0.8%	0.4%	4.5%	0.5%	5.7%	0.3%	40.2%	5.6%

Source: Labour Force Survey, Eurostat.

TABLE 3

**EMPLOYMENT, UNEMPLOYMENT and ACTIVITY RATES
by EDUCATIONAL LEVEL in the EU in 2000**
(% of respective working-age population 15-64)

	High-			Medium-			Low-		
	E	U	A	E	U	A	E	U	A
Tota	82.	4.	86.	69.	7.	75.	50.	12.	57.
Me	86.	3.	89.	76.	6.	82.	63.	10.	70.
Wom	77.	6.	82.	62.	9.	69.	37.	14.	44.

Source: Employment in Europe 2001.

Note: Educational levels are defined as "high" if the individual has completed tertiary education, as "medium" if upper-secondary education, and as "low" if less than upper-secondary education.

**Table 4 : Employment rate targets and employment creation in the EU
For 2010**

	2001	2002	2010	Increase 2002-2010
Female target ("more than 60%")				
Employment (millions)	67.9	69.1	74.9	5.8
Population (millions)	124.2	124.3	124.9	0.6
Employment rate (%)	54.7	55.6	60.0	4.4 pp
Overall target ("As close as possible to 70%")				
Employment (millions)	158.6	159.8	175.2	15.4
Population (millions)	248.2	248.5	250.3	1.7
Employment rate (%)	63.9	64.3	70.0	5.7 pp
Implications for the female target				
Employment (millions)	67.9	69.1	78.7	9.6
Population (millions)	124.2	124.3	124.9	0.6
Employment rate (%)	54.7	55.6	63.0	7.4 pp
Older workers target ("50%")				
Employment (millions)	16.1	16.5	23.9	7.4
Population (millions)	42.1	42.6	47.8	5.1
Employment rate (%)	38.3	38.7	50.0	11.3 pp

Note 1: Population growth derived from Eurostat's population projections (baseline scenario 1999 revision). Adjustments have been made to guarantee consistency with the EU Labour Force Survey by applying annual changes used in the baseline scenario to actual 2000 LFS population levels. Employment rates in 2001 are estimated by Eurostat. Employment rates for 2002 are short-term projections from Employment in Europe 2001 Autumn update, DG Employment.

Note 2: Employment and working age population figures are in millions. Employment rates are in percentages. Increases in employment rates are in percentage points-pp.

Note 3: Based on a DG EMPL scenario, the attainment of the 70% overall employment rate would be associated with an employment rate of 63% for women in 2010. The required increases in employment in order to achieve the 60% rate do not reflect recent, current or expected patterns in either employment and participation for women and therefore would not be consistent with the attainment of the overall 70% target.

Table 5 : Activity rates (%) by age group and gender in the EU, the US and Japan in 2000

	Total 15-64			15-24			25-54			55-64		
	T	M	F	T	M	F	T	M	F	T	M	F
EU15	68.9	78.1	59.8	47.6	51.0	44.1	82.4	92.7	72.2	40.6	51.5	30.1
US	77.2	83.9	70.8	65.9	68.6	63.2	84.1	91.6	76.8	59.2	67.3	51.8
JP	72.5	85.2	59.6	47.0	47.4	46.6	81.9	97.1	66.5	66.5	84.1	49.7
EU best	75.9	82.2	69.4	61.6	64.7	58.3	85.0	91.5	78.3	54.5	63.4	45.8
EU worst	61.6	75.3	48.2	40.0	43.7	36.2	75.6	91.6	59.9	34.0	50.0	19.2

Note 1: T (total), M (men), F (women). Data for the US does not include persons aged 15.

Note 2: EU best and worst performers ranked according to total activity rates in 2000. The three highest activity rates in 2000 were those of DK, FIN, S and the UK (the latter two almost identical) and the three lowest in EL, I, E.

Source: Labour Force Survey, Eurostat. OECD Employment Outlook 2001, for the US and Japan.

Table 6: Full-time equivalent employment rates (%) in the EU in 2000			
	Total	Men	Women
B	57.5	70.4	44.8
DK	69.3	76.9	62.2
D	58.6	71.1	46.1
EL	55.3	71.5	40.0
E	52.5	69.0	36.6
F	58.7	69.2	48.7
IRL	60.6	75.8	45.2
I	51.7	67.0	36.7
L	60.4	75.9	44.6
NL	57.5	74.7	40.5
A	63.5	76.2	51.0
P	66.6	76.6	57.1
FIN	64.9	69.3	60.5
S	65.1	70.0	60.2
UK	61.7	74.4	49.7
EU15	57.9	71.0	45.3

Source: Labour Force Survey, Eurostat.