

The new European Employment Strategy

Introduction

As we explained in the previous edition of *Social Developments*, the process for reviewing the employment guidelines was more a matter of political negotiation than a real assessment of the positive and negative aspects of the implementation of the Luxembourg strategy over a five-year period. The key point of this review was the decision to synchronise the European Employment Strategy (EES) and the Broad Economic Policy Guidelines (BEPGs). The co-ordination and decision-making role of the spring European Council was stepped up. On the other hand, nothing was envisaged for the other social OMC processes (see article by Ramón Peña-Casas in this volume). The draft constitutional Treaty adopted by the Convention strengthened co-ordination between the EES and the BEPGs (Article I-11(3) and Article I-14(1) & (3)), while keeping the former subordinate to the latter (Article III-98). However, it proved impossible during the debates on the Constitution to adopt a definition of the OMC – and, still less, of improved conditions for participation (see article by Cécile Barbier in this volume).

Our first section will summarise the main features of the new EES, both content and procedures, aimed at aligning the EES and the BEPGs.

In section two we shall comment on some important documents and reports, namely those by Wim Kok on employment and by André Sapir on economic policy. We shall examine the institutional logic and the content of these documents in the light of recent developments

affecting the BEPGs and the EES. By referring to two Commission communications, one on “making work pay” and the other on “quality in work”, we shall in addition demonstrate the considerable tension between two visions of the labour market.

Our third section will be devoted to analysing the Commission’s recommendations to Member States. These recommendations are in fact supposed to constitute a central aspect of the open method of co-ordination (OMC), giving it credibility and endowing the Commission with significant influence over the practical implementation of the objectives agreed at European level. We have classified the recommendations made since 2000 under thirteen different headings. Contrary to what might have been expected, employability comes in fifth place for the total number of recommendations issued.

1. The new procedures: process and content

The four-pillar structure (employability, adaptability, entrepreneurship and gender equality) which had underpinned the guidelines since 1997 has now given way to three overarching objectives:

- full employment;
- quality and productivity;
- social cohesion.

The appearance of the word “productivity”, which is not normally part of standard social terminology, is geared to a more long-term vision: as from 2010, the population of working age is expected to decline and the stability of pension systems will need to be secured by increasing productivity. As for social cohesion, this concept places the EES in a territorial context. Nevertheless, these overarching objectives do not fully dovetail with the ten guidelines which shape the new-style EES. These are:

1. active and preventative measures for the unemployed and inactive;
2. job creation and entrepreneurship;
3. address change and promote adaptability and mobility in the labour market;

4. promote development of human capital and lifelong learning;
5. increase labour supply and promote active ageing;
6. gender equality;
7. promote the integration of and combat the discrimination against people at a disadvantage in the labour market;
8. make work pay through incentives to enhance work attractiveness;
9. transform undeclared work into regular employment;
10. address regional employment disparities.

Each guideline comprises various sub-measures (five or six in some cases). Thus, simplification is more a matter of form than substance. On the whole, these new guidelines tend to prolong the priorities contained in the previous ones, rather than radically altering or reorienting them.

Certain terms also crop up for the first time, such as reducing the number of “working poor” (on this phenomenon, see the study carried out by Ramón Peña-Casas of the Observatoire social européen for the Dublin Foundation, 2004).

As we shall see in section three, the Commission has pre-empted the implementation phase and already sought to follow this new structure in its 2003 recommendations to Member States. The National Action Plans (NAPs) submitted by Member States in September 2003 likewise conformed to this layout. These Plans now cover a period of three years. The first year is for the presentation of objectives, the second focuses on developments and the third on implementation. One of the major changes inherent in the new procedures, therefore, is that they attach much more importance to implementation. In order to do so, annual modifications to the objectives being pursued had to be avoided. In short: more stable objectives; more thorough assessment.

It is also interesting to note that the acceding countries have already had a trial run: they have drawn up Joint Assessment Programmes (JAPs), which pave the way for their full involvement in the EES and its new procedures. Circumstances in these countries are so different – as

shown by Table 1, incorporating three basic indicators – that the current guidelines may be deemed ill-matched to their real needs. The guidelines ought to be adjusted fairly rapidly to take account of those countries' labour markets.

Table 1: Employment, participation and unemployment in 2002

	Employment rate age 15-64	Employment rate age 55-64	Harmonised unemployment rate
	Total	Total	Total
Cyprus	68.6	49.2	3.8
Czech Rep.	65.5	40.8	7.3
Estonia	62.0	51.6	9.1
Hungary	56.6	26.6	5.6
Lithuania	59.9	41.6	13.1
Latvia	60.4	41.7	12.8
Malta	54.2	31.0	7.4
Poland	51.5	26.1	19.9
Slovenia	63.4	24.5	6.0
Slovakia	56.8	22.8	18.6
AC 10	55.9	30.5	14.8
EU 15	64.3	40.1	7.7
EU 25	62.9	38.7	8.9

Source: CEC, 2002.

The Commission nevertheless gives a reasonably upbeat assessment of the progress so far made in the JAPs (CEC, 2003a).

From a procedural point of view, there is now a clear distinction between two phases: the “implementation” phase (January-March) and the “guidelines” phase (April-July).

During the implementation phase, from January onwards, the Commission presents the conclusions from its scrutiny of implementation of the previous year's European guidelines. Various documents are adopted – the report on implementation of the Broad Economic Policy Guidelines, the draft Joint Employment Report and the report on implementation of the internal market strategy – providing a detailed assessment of progress made in each of these areas. At the same time, the Commission presents its summary report for the

spring European Council, which constitutes its main contribution to the European Council. We should also mention the structural indicators measuring the progress achieved.

The spring European Council issues strategic guidelines which open up the so-called guidelines phase. On this basis, the Commission defines and presents its proposals for future action in these different areas in a “guidelines” package. The package comprises the BEPGs, the employment guidelines and the employment recommendations. Once these have been scrutinised by the European Parliament and by the relevant configurations of the Council, the June European Council draws up its conclusions. The relevant configurations of the Council adopt the BEPGs, the employment guidelines and the employment recommendations; on this basis the Member States prepare their National Action Plans and national reports during the second half of the year. And so it goes on.

This attempt at simplification and co-ordination has also affected the BEPGs (with limited impact, as illustrated by several studies: see www.govector.org). Thus the presentation of the BEPGs was changed in 2003, with a list of “general objectives” sometimes also referring back to the employment guidelines where the same subjects are covered. There are eight chapter headings and, in all, 23 general objectives.

1. Maintain budgetary positions close to balance or in surplus throughout the economic cycle.
2. Subject to this, avoid pro-cyclical policies that counteract the symmetric play of the automatic stabilisers over the cycle.
3. Ensure that nominal wage increases are consistent with price stability and productivity.
4. Reduce high marginal effective tax rates, reduce tax on low-paid labour, improve the application of the eligibility criteria to benefits.
5. Ensure that wage bargaining systems allow wages to reflect productivity, taking into account productivity differences across skills and local labour market conditions.
6. Promote more adaptable and innovative work organisation.
7. Facilitate labour mobility.

8. Ensure efficient active labour market policies with special attention to people facing the greatest difficulties.
9. Foster competition in goods and services markets, by (...) encouraging market entry and effective competition in network industries while guaranteeing the universality, high-quality and efficiency of services of general interest.
10. Accelerate the integration of EU capital markets.
11. Generate a supportive environment for entrepreneurship.
12. Implement measures to strengthen corporate governance, at national and at Community level.
13. Promote investment in knowledge, new technologies and innovation and make progress towards the 3% of GDP objective of total R&D investment.
14. Enhance the contribution of the public sector to growth by redirecting (...) public expenditure towards investment in physical and human capital and knowledge.
15. Ensure a further decline in government debt ratios.
16. Design, introduce and effectively implement reforms of pension systems. Encourage longer working lives and increase the effective retirement age. Introduce elements of funding and improve, where necessary, access to supplementary pension schemes (...). Adapt pension systems to more flexible employment.
17. Take steps to modernise social protection systems and to fight poverty and exclusion.
18. Improve private investment in regions lagging behind, particularly by taking steps to allow actual wages to reflect productivity taking into account differences in skills and local labour market conditions.
19. Ensure that public support is focused on investment in human and knowledge capital, as well as adequate infrastructure.
20. Reduce sectoral subsidies, tax exemptions and other incentives that have a negative environmental impact and are harmful for sustainable development.
21. Reduce subsidies to non-renewable energy. Promote market instruments, further broaden the coverage, and ensure appropriate differentiation of energy taxation.
22. Adjust the system of transport taxes, charges and subsidies to better reflect environmental damage and social costs due to transport.
23. Renew efforts to meet the commitments under the Kyoto protocol.

The Ecofin Council drew on these guidelines to issue recommendations to the Member States. As immediately becomes apparent, the BEPGs overlap with the EES. Thus the question arises: which of the two will have the last word in respect of employment policy? The Employment Committee has set out its view of the division of labour between the BEPGs and the EES: “(...) *it should be noted that the Broad Economic Policy Guidelines provide the overarching framework for economic policy co-ordination within the EU and should address employment issues primarily from the broad economic perspective. The Employment Guidelines – providing a comprehensive and integrated approach – are the main tool to give direction to and ensure co-ordination of Member States’ employment policies, dealing with employment issues in greater detail. Accordingly, the employment recommendations are the main instrument to deal with employment and labour market challenges in each Member State. References to the employment recommendations should be provided, as appropriate, in the Broad Economic Policy Guidelines*” (Employment Committee, 2003: 2).

We shall examine this point in detail next year, once the spring and June European Councils have handed down their conclusions. The first documents published in January 2004 (the “implementation package”) do not look very promising. Let us not forget that, whereas the Ministers of Economics and Finance are present behind the scenes at the European Council, that is not always the case for the Ministers of Employment and Social Affairs: this gives the former a greater say in the drafting of the European Council conclusions. Headway has however been made in one sense: involvement of the social partners ahead of the Summit is now official – although it remains to be seen what impact they will have.

2. Conflicting reports and approaches

If we were to briefly sum up the new strategy, we would emphasise the concern for greater coherence between employment and the economy, on the one hand, and, on the other, the fact that lessons have been learnt from the first five years of the EES to improve its operation. And yet one only has to read the much-publicised reports by Wim Kok on employment and by André Sapir on economic policy – but also the communications from the Commission – to realise that there is still a good deal of tension in respect of both procedures and content.

2.1 The reports by Wim Kok and André Sapir

Following a request from seven Member States (Germany, United Kingdom, Portugal, Spain, France, etc.), a European Employment Task-force was established at the Brussels European Council (March 2003). Its remit was to identify specific measures geared to helping the Member States implement the revised Employment Strategy. The Task-force was chaired by the former social-democrat prime minister of the Netherlands, Wim Kok, and comprised seven other members from academic circles or representing the social partners ⁽¹⁾. Its report, submitted in November 2003 (Kok *et al.*, 2003), in essence paints a picture little different from appraisals of the EES and issues recommendations to Member States. It is worth noting that, for the first time in a “social” document, the subject of wages is alluded to among the recommendations. There is nothing, however, about monetary or macro-economic policy.

The Commission welcomed this report and used it to shed additional light in its evaluation report (CEC, 2004a). Having been largely in control of the report’s message, the Commission had no difficulty in incorporating it into the renewed process (CEC, 2004b). We, for our part, wish to point out the aberrant nature of this process: what credibility and justification can there be for a group of seven experts laying down the law to Member States? If establishing a Task-force were sufficient to resolve employment and unemployment problems dating back more than twenty years, why would we bother with a European strategy? And if it were merely a matter of giving a higher profile to certain messages contained in the EES, it would have made more sense to use writers or communications specialists. In actual fact, some Member States were not well pleased with the general message of the EES, and others found that the procedures went too far. The findings of the Task-force justified a rightward shift in the EES and a rethink of its cumbersome procedures. The Commission, which now has the necessary expertise in respect of employment policy,

¹ The Task-force consisted of chairman Wim Kok and members Anna Ekström, Anette Roux, Federico Duran Lopez, Carlo Dell’Aringa, Christopher Pissarides, Maria João Rodrigues and Günther Schmid.

masterminded this group and channelled its message. But that still does not explain why reactions against the report have not been more outspoken. DG Ecfm, for its part, immediately grasped the usefulness of a report which, in its opinion, stressed “*the need for employees and employers to be able choose from a variety of contractual employment relations, and that business regulation needs to be simplified. It acknowledges the contribution that temporary work agencies can play in increasing the adaptability of the labour market, while providing employees with a well-defined framework. The EETF calls for a reconsideration of the concept of security for employees (...) through more dynamic forms of social protection, “job-to-job insurance” and active measures. (...) the EETF calls for renewed impetus in tax/benefit reform, (...) [and] recognises the importance for wage differentiation to reflect productivity and the sectoral and regional labour market situation*” (CEC, 2004a: 25).

These considerations are not radically different from the EES but do reinforce the liberal interpretation of it. Little is said about job security, and less still about quality. We are in fact taken back to the pre-Lisbon strategic priorities of the BEPGs: less solidarity, be it in the form of sectoral and cross-industry collective bargaining or statutory pensions, but more flexibility and adaptability.

Another surprising element is the mismatch with the report produced, at the behest of Commission President Romano Prodi, by André Sapir with six other economists and one political scientist. This report, which looks into economic policy ⁽²⁾ (Sapir *et al.*, 2003), declined to take account of employment since that was not part of its remit. At a time when attempts are being made to align the EES and the BEPGs, each of these two key reports of the year charts its individual course with a segmented view of economic and social affairs. They are indicative of the fact that, politically and intellectually, employment policy is subject to and dependent on economic policy. By neglecting to investigate the institutional conditions for growth (in other words, by toeing the ECB line of 2 to 2.5% potential growth), the Kok report could not go

² This group consists of chairman André Sapir and members Philippe Aghion, Giuseppe Bertola, Martin Hellwig, Jean Pisani-Ferry, Dariusz Rosati, José Viñals and Helen Wallace.

beyond suggesting adjustments to labour supply policy and hence, by hook or by crook, greater flexibility. As for the Sapir report, its intellectual cornerstone was that labour markets must be more flexible (as a precondition for the smooth operation of monetary union), and in this sense it is in step with the ECB's way of thinking. Like most of the economists at DG Ecfm, these players see little point in co-ordinating employment policies at European level, except with a view to making those policies more flexible.

2.2 Two communications from the Commission

Two communications adopted by the Commission illustrate differing perspectives on social issues. The first is entitled "making work pay" (CEC, 2003b). This is the fourth area covered by the 1999 communication on social protection, which served as a basis for launching the OMCs on inclusion and pensions and co-ordination in respect of healthcare. According to the Nice social agenda, this subject was to be addressed at European level in 2004. The content of the communication is edifying, both for its limited methodological approach and for the implicit verdict on jobless persons that emerges from it.

Indeed, the question of unemployment traps (in sum: one would earn more doing nothing than by finding a job) is broached from a narrowly economic point of view, inferring that unemployed persons make a rational choice between work and *leisure* (i.e., here, being unemployed full-time). This trade-off leads to "dependency" (*sic*). No choice of words is ever neutral, and the use of "dependency" has overtones of drug dependency and alcoholism. What this amounts to is an ideological attempt to reclassify the long-term unemployed.

The report looks at neither working conditions, nor the level of unemployment, nor job availability. The link between benefit cuts and the increase in undeclared employment is not identified. In fact, if we follow the thinking of the European civil servants who produced this document, a jobless person whose benefits are cut should actually work (a little) in the black economy so as to maintain the balance in his/her "trade-off" between work and leisure (!). Furthermore, nothing is said about the Scandinavian countries, where replacement rates for the unemployed

(“how much they receive in relation to their last wage”) are very high: on that premise, there should be huge numbers of people in those countries who do not wish to work. But that could not be further from the truth. The logical conclusion to be drawn from their experience would be to argue in favour of a substantial rise in benefits, so as to fall into line with best practice. The fact that a document like this conveys such reactionary views and so many prejudices against people excluded from the labour market can only discredit an analysis conducted by European civil servants who are remote from the working world and whose conditions of service protect them from economic insecurity.

The European Trade Union Confederation (ETUC) responded forcefully to this text, pointing out that the underlying postulate is obvious: the unemployed are unwilling to work and all means should be found, via social security systems, to put pressure on them to accept whatever work is available. All of this is strongly reminiscent of the US principle of “workfare” (conditional benefits).

The communication on quality in work, on the other hand, presents a different view of the labour market and raises much more fundamental questions concerning well-being at work and how to improve job quality (CEC, 2003c). To give just one example – which the authors of the previous report would do well to mull over – a third of workers (especially women and older workers) return to unemployment after having held down a low-quality job, as opposed to just 10% of those in high-quality jobs. This communication revisits the ten aspects of quality defined under the Belgian presidency and conducts a country-by-country analysis.

Nevertheless, once again the number one item on the agenda is not job quality but quantity, as indicated by the title of the Kok report: “Jobs, jobs, jobs”. Making work more financially attractive is to be a priority for 2004.

3. The recommendations: analysis of priorities

In July 2003 the Commission presented its recommendations to Member States concerning implementation of the European Employment Strategy at national level. Whereas the total number of recommendations is always similar – just over 50 ever since the first

recommendations in 1999 (55 in 2003) – two facts are worth noting. Firstly, the number of recommendations addressed to each country has narrowed: in former years there were between two and six, but this year the range is from three to five. Three countries have received five; four have received four; and eight (the majority) have received three. Secondly, the presentation has been standardised, meaning that they can be grouped thematically. This has enabled us to construct Table 2, below.

Interestingly, the themes giving rise to the largest number of recommendations in 2003 are not – as might have been expected – activation or reducing labour costs but, in order, gender equality (ten recommendations), active ageing (ten) and lifelong learning (nine). We should however treat these groupings with extreme caution because, for instance, “gender equality” recommendations may be directed at the issue of wage differentials, segregation in access to jobs or the lack of childcare facilities. Those grouped under the heading “making work pay” may be directed at labour costs in general, at the cost of low-skilled or unskilled labour, or else at the differential between income from social benefits and the minimum wage.

On the basis of the eleven categories used by the Commission for its 2003 report, we have re-read the recommendations for the three previous years 2000, 2001, 2002 and classified them according to this nomenclature (Council of the European Union 2000, 2001 and 2002). In cases where a recommendation could be classified in more than one category, we have – wherever possible – taken the Commission’s own choice in its 2003 classification. There is often, in fact, continuity in the message contained in the recommendations, which facilitated our task – even though the decisions are not totally satisfactory in all instances and underline the multiple meanings of the recommendations. However, a deconstruction of each recommendation to take account of twofold or even threefold messages might have led to even more confusion: how far should the recommendations be broken down? Should they be weighted? (For example: where a recommendation on lifelong learning consists of several lines but devotes just one sentence to involving the social partners, should it count as two?) Rather than going down that road, which would have entailed a good deal of subjectivity on our part,

we have opted to follow the Commission's logic and tried to abide by its classification, even though in some cases we would have classified a recommendation differently.

Table 2: Recommendations by theme and by country

	Number of recommendations	Gender equality	Labour supply and active ageing	Lifelong learning	Making work pay	Prevention and activation	Address change and promote adaptability	Delivery services	Social partnership	Job creation	Regional disparities	People at a disadvantage
A	3	X	X	X								
B	4		X		X	X					X	
D	5	X		X	X	X	X					
DK	3		X		X							X
E	4	X					X	X			X	
EL	5	X		X	X		X	X				
F	4		X	X		X			X			
FIN	3	X	X			X						
I	5		X	X			X	X		X		
IRL	3	X		X						X		
L	3	X	X	X								
NL	3	X		X	X							
P	3	X		X					X			
S	3		XX		X							
UK	4	X	X			X			X			
Total	55	10	10	9	6	5	4	3	3	2	2	1

Source: Council of the European Union (2003).

Table 3: Total recommendations 2000-2003

	Number of recommendations 2000-2003	Gender equality	Labour supply and active ageing	Lifelong learning	Making work pay	Prevention and activation	Address change and promote adaptability	Delivery services	Social partnership	Job creation	Regional disparities	People at a disadvantage	Statistics	Co-operation/co-ordination	Employment in services	Entrepreneurship
A	12	4	3	3	2											
B	18		4	2	3	4					2			2	1	
D	20	3	3	3	4	4	1						1		1	
DK	10	2	2		4							2				
E	18	4		2	1	1	3	3			2		1		1	
EL	23	3	1	4	2	2	2	2	2				1	2	2	
F	16		4	3	3	3	1		1						1	
FIN	12	4	3		3	2										
I	20	3	3	3	1	3	2	1		2				1	1	
IRL	11	4		4						1	1				1	
L	11	3	3	3	1				1							
NL	9	1		1	5								2			
P	13	3		4			1		3						2	
S	11	3	2		5							1				
UK	16	5	1	2		3			4				1			
Total	220	42	29	34	34	22	10	6	11	3	5	3	6	5	10	

Source: Our own calculations based on the 2000, 2001, 2002 and 2003 recommendations.

42 recommendations on gender equality have been issued over the four years, and only Belgium and France have never received a recommendation about it. Next, with 34 recommendations, come lifelong learning (only Sweden, Denmark and Finland have never had a recommendation)

and making work pay (the UK, Ireland and Portugal have had none). Active ageing comes in fourth place (Portugal, Spain, Ireland and the Netherlands have escaped recommendations). Lastly, prevention and activation come fifth. Sweden, Portugal, the Netherlands, Luxembourg, Ireland, Denmark and Austria have had no recommendations in this area over the four years. This broadly confirms that the theme of employability, so often promoted as the overriding objective of the EES, applies to only certain Member States in particular. In all, eight countries have received recommendations on the themes of “adaptability” and “entrepreneurship”. Twelve recommendations have been issued for each of these themes over the four years; just two fewer than for “social partnership”.

This finding – to be treated with the methodological caution mentioned above – is nevertheless highly surprising and unexpected. Since 2000, recommendations on the theme of prevention and activation have not been among the top three categories numerically. Gender equality, on the other hand, always comes in first or second place. This could mean that employability is so widely debated that specific recommendations are not required for it to be implemented. It is, in a sense, incorporated into the national agenda. Only a few countries have been explicitly and repeatedly singled out: Germany, Belgium, France and Italy, but also the United Kingdom.

By contrast, the debate about gender equality is less all-pervasive and the numerous recommendations have failed to translate into a convincing and widespread normative discourse. This is also somewhat surprising to anyone who is aware of the strength of feminist groups and their ability to utilise EU legislative resources actively and positively to uphold the right to equality, in particular before the Court of Justice. As is shown by the five-year assessment of the EES, it is not a matter of saying that nothing has been done, but on the contrary that the issue of gender equality is not normally associated with the EES, despite the fact that this is the area where the largest number of recommendations has been issued.

Conclusion

2003 was a year of transition in the Luxembourg strategy, towards a coordinated strategy in respect of macro-economic and employment policy. This readjustment, carried out in a sluggish economic climate, has not occurred without awkwardness and tension: between the different configurations of the Council, between the Commission and the Council (as illustrated by the incidents over the Stability Pact), and between the different versions and visions of economic and social co-ordination. It will no doubt be several years before these two processes are properly integrated. The Kok and Sapir reports revealed that neither the procedural aspects nor the political messages of the OMC principle can as yet be taken for granted. But, more crucially, not everyone has accepted the idea of co-ordination between employment and economic affairs.

The “making work pay” communication was an episode which only goes to show that a narrowly economic vision, rather than a balanced approach, still prevails. One might wonder about the capability (and desire) of the Social Affairs Council to uphold an independent view of employment policy and social policy. What is the point of these processes if liberal and reactionary messages are sent out even by the Social Affairs Council? This brings us back to a fear expressed at the very start of the EES and the OMC: that these processes would be used by governments as a pretext or excuse for changes to national legislation. The decisions of France (the traditional champion of a Social Europe) and Germany (the last bastion of social-democracy) to step up the process of domestic reform lends credibility to the hypothesis that wide-ranging European social debate has been weakened. If that were to prove true, the rejection of Europe would only be boosted.

All of which makes it even more striking that so few preparations have been made for enlargement – not from a technical point of view, but in terms of content (can the EES be applied as it stands?) and procedures (how can reports on 25 countries still remain digestible?). What social policy discourse and practices are appropriate to an EU of 25: that is still the real debate. It has not been conducted as yet but will be inescapable in the future.

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