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# Memo to the commissioner responsible for employment and social rights

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Social and labour market policies in the European Union are primarily the responsibility of member states, leading to varying approaches. Your job is to foster positive convergence through legislation, financial and technical support, and coordination of best practices. Despite considerable progress, the EU has yet to meet the 2030 targets for employment rates, adult training and poverty reduction.

The major social policy challenge you will face include transforming labour markets, skills and labour shortages, balancing pension sustainability with adequacy and meeting the increasing demand for long-term care. To address these issues, you must collaborate with member states to improve labour market conditions for all workers, support the reform of pension systems, support measures to increase the supply of long-term care, fund research into healthy ageing and enhance data collection for better policymaking.

**Focus on wages, working conditions and technology**  
**Assess pension, healthcare and longterm care policy**  
**Push for better data and develop best practices**

## State of affairs

Social and labour market policies are mostly member-state competencies. While labour market policies and the structure of social security systems vary considerably in different EU countries, the EU strives to promote positive convergence through different tools. First, it can legislate on matters that impact labour and social policies, such as the protection of workers' rights and non-discrimination. Second, it can set high-level targets and monitor implementation through mechanisms including the European Semester. Third, it can provide technical and financial support to reform and investment efforts. Finally, it can play an important role in coordination and in collecting best practices.

Since its adoption in 2017, the European Pillar of Social Rights (the 'Pillar') has guided EU social policy. In 2021, the Pillar Action Plan reinforced the EU's commitment to its objectives by setting targets for 2030, focusing on improving quality of life and living standards, reducing socioeconomic disparities, promoting social justice and combatting social exclusion and discrimination.

EU citizens generally support social policy at EU level. According to the 2020 Eurobarometer wave, 88 percent of European citizens consider a social Europe personally important, and 60 percent are aware of at least one recent key EU initiative aimed at improving working and living conditions. However, the EU still has a long way to go to achieve the three main 2030 targets – on the employment rate, adult training and poverty – set by the Pillar Action Plan. As of 2023, the EU employment rate was 75.3 percent, falling short of the 78 percent target, requiring the creation of nearly 7 million new jobs. Adult training participation was stagnant at 46 percent, below the 60 percent target. Finally, the objective of reducing the number of individuals at risk of poverty or social exclusion by 15 million is far from realistic, given that the EU only saw a reduction of 266,000 from 2021 to 2022.

**The EU still has a long way to go to achieve the three main 2030 targets on the employment rate, adult training and poverty**

### Changing labour markets

Labour markets have been significantly impacted by emerging technologies, demographic shifts and climate change. Emerging digital technologies have reshaped the world of work by

introducing new forms of employment, such as platform work, and altering the task composition of jobs. In recent years, the green and digital transitions have sped up this transformation by drastically changing the skills required in the labour market, leading to a significant mismatch between skill supply and demand.

The EU has responded to the changing world of work through targeted funding and legislation including the 2019 Work-life Balance Directive (Directive (EU) 2019/1158) and the Directive on Transparent and Predictable Working Conditions (Directive (EU) 2019/1152). Until early 2020, EU countries made significant social progress partly due to EU-level measures that supported the design and implementation of social policies at national level. Unemployment rates, which peaked in 2013 post-Global Financial Crisis, declined steadily. Increased labour income and social transfers boosted household disposable income and reduced at-risk poverty rates. However, progress has been challenged by COVID-19 and the energy crisis.

**Despite the rapid mobilisation of massive EU funds, the pandemic ended a six-year continuous employment growth cycle**

In the first half of 2020, the pandemic caused a deep recession and, despite the rapid mobilisation of massive EU funds, ended a six-year continuous employment growth cycle. The pandemic also contributed to the widening skills gap by accelerating the digitalisation of both public and private sector activities. Following the pandemic, the energy price spike in 2022 led to a surge in inflation and caused a cost-of-living crisis, which exacerbated inequalities.

Navigating structural transformations and mitigating the adverse impacts of transitory shocks, your predecessor implemented significant EU social policy measures including the SURE instrument to safeguard employment (2020), the Directive on Adequate Minimum Wages (Directive (EU) 2022/2041) and the Platform Work Directive (2024). Your predecessors also mobilised various funding instruments to support EU social policy measures, with the European Social Fund Plus (ESF+) serving as the primary funding source.

### **An ageing population and shrinking workforce**

EU labour markets are changing against the backdrop of ageing populations. The number of working-age individuals peaked

at 270 million in 2010 and has since been steadily decreasing, reaching 262.4 million in 2022. The significant influx of refugees (about 3.2 million in 2022) has temporarily alleviated the impact of the declining working-age population, but these arrivals do not provide a long-term structural solution and the downward trend will resume. The retirement of older workers is already exacerbating labour shortages, particularly in industries with subpar working conditions.

**A shifting age structure will have major implications for social security systems, notably pensions and long-term care**

A shifting age structure will have major implications for social security systems, notably pensions and long-term care (LTC) – citizens need both for welfare in old age. Pension and LTC policy are national responsibilities. Nevertheless, you have some tools at your disposal to foster positive convergence among countries, as reflected in the communication on demographic change (European Commission, 2023a). Pension and LTC issues also feature in some countries' legally non-binding European Pillar of Social Rights action plans.

The structure and coverage of pension and LTC systems are very different in various EU countries, resulting from their distinct preferences and histories. However, the Commission can identify best practices, benchmark national systems and advise governments on their reform efforts. The EU also provides financial support in these policy areas. The 2021-2027 ESF+ programming period includes €6.7 billion for healthcare and LTC. Furthermore, pensions and LTC policies feature in some countries' post-pandemic Recovery and Resilience Plans.

The Commission supports member states on pensions with monitoring and analytical activities, such as the projection of future ageing expenses. It monitors the financial sustainability of pension systems under the Stability and Growth Pact and the European Semester. More recently, your predecessor put more emphasis on pension adequacy. Furthermore, Commission initiatives not directly targeted at the pension sector impact pension matters. The Pay Transparency Directive (Directive (EU) 2023/970) and its enforcement should help close the substantial gender pension gap that still exists in the EU. The Work-life Balance Directive should also help in this respect.

While pensions are a longstanding issue for the Commission,

**The pandemic showed that the long-term care sector is already under strain in many EU countries**

LTC has received increased attention more recently. The pandemic showed that this sector is already under strain in many EU countries. A significantly larger share of elderly people in the population will lead to rising demand for LTC. Your predecessor published the European Care Strategy in September 2022 (European Commission, 2022) to promote access to high-quality LTC services and to improve the situation for those needing care and those providing it. The Council subsequently adopted a recommendation in December 2022. The Strategy notably establishes an information and knowledge exchange mechanism through national coordinators, which is very welcome. Furthermore, the Commission has been supporting member states in implementing structural reforms in health, social care and LTC through a 2023 Flagship Technical Support Instrument (TSI), and a proposed 2025 Flagship TSI on Demographic Change<sup>1</sup>.

## Challenges

Your main challenge will be to assist the EU labour market in managing the impact of technological change, the green and digital transitions and the demographic shifts, while ensuring inclusivity and maintaining the stability of the social security systems in the long-term. Achieving the EU's strategic objectives will only be possible if labour markets and social security systems are concurrently reformed.

### Skills shortages

Shortages of skills, whether basic or advanced, pose recruitment challenges for all companies, especially SMEs. While most companies struggle with skills shortages, many workers report that their skills are underutilised. Skills shortages (and skills mismatches) hinder technology adoption and EU competitiveness, and also slow down the green transition.

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<sup>1</sup> See European Commission, 'Flagship Technical Support Projects', undated, [https://reform-support.ec.europa.eu/our-projects/flagship-technical-support-projects\\_en](https://reform-support.ec.europa.eu/our-projects/flagship-technical-support-projects_en).

### **The difficulty of activating underrepresented groups**

A significant number of individuals aged 20 to 64 (53 million, 20 percent), are not in the labour force. Among them, only one in six express a readiness to work. Almost 40 percent of these inactive individuals are aged 55 to 64, with women constituting up to 63 percent. The vast majority have at most a high school level qualification (83 percent). Activating these underrepresented groups is a main policy area identified in the March 2024 action plan for tackling skills and labour shortages (European Commission, 2024). Yet, a comprehensive understanding of the reasons for low labour force participation among these underrepresented groups is lacking.

### **Persistently low training participation**

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Despite the importance of reskilling and upskilling in a changing labour market, training participation remains low: only 46 percent of adults participate in training with only 10 percent of survey participants citing access barriers, according to Eurostat. Low training participation is primarily due to a lack of anticipation of the need for reskilling/upskilling (32.2 percent). This pattern has persisted for decades, but the underlying reasons remain poorly understood.

### **Risks of skilled third-country migration**

Policies easing skilled migration from non-EU countries carry inherent risks. First, influxes of skilled migrants may discourage domestic skills development if skilled migration proves to be cost-effective. Additionally, third-country labour migration may introduce new challenges in ensuring proper working conditions. Social dialogue plays a crucial role in maintaining adequate working conditions, but migrant workers often lack access to these networks, making them more vulnerable to substandard working conditions arising from language barriers, subcontracting, social security fraud, undeclared work and inspection difficulties. Similar instances have already been observed with third-country haulage drivers working within the EU borders.

## **Tension between financial sustainability and adequacy of pensions**

The demographic transition will increase the financial burden on pension systems, particularly pay-as-you-go systems, which are still the dominant form of pension provision across the EU. The EU-wide old-age dependency ratio, or the number of people aged over 64 relative to the working-age population, stood at 36 percent in 2022. The ratio is projected to increase to 55 percent in 2050 and 65 percent in 2100.

**Without reform, population ageing might result in soaring pension liabilities that jeopardise fiscal sustainability**

Without reform, population ageing might result in soaring pension liabilities that jeopardise fiscal sustainability. Your challenge is to advise countries in their reform efforts with a view to improving financial sustainability of pension systems while ensuring pension adequacy, especially for the vulnerable. Notably, a substantial gender pension gap persists in the EU, despite past policy action.

## **Insufficient long-term care supply**

Elderly citizens need adequate income in old age and also access to the services they need. Countries must prepare for a significant increase in demand for care services. The care sector needs to be made more attractive to workers, and investments in equipment and infrastructure are needed. Insufficient preparation of LTC systems would be particularly harmful for women, who supply the majority of informal care in Europe.

## **Utilising emerging technologies while mitigating the risks**

Emerging technologies including machine learning and artificial intelligence have the potential to create jobs, optimising labour allocation and increasing productivity. However, their overall impact on labour markets remains uncertain and will largely depend on the regulatory framework and how the workforce adapts to changing skills demand. These technologies also raise various concerns, including but not limited to job security, wage polarisation and working conditions. Misuse of emerging technologies poses several risks to workers, such as algorithmic bias in recruitment, promotions and workplace evaluations, or algorithmic management and surveillance prioritising efficiency over worker wellbeing.

Despite these challenges, emerging technologies also offer numerous opportunities. Innovative job design can increase labour force participation among individuals with physical or cognitive limitations, and flexible work arrangements can help balance work with personal responsibilities. Technology-based training initiatives can boost training participation, and advancements can reduce labour requirements in shortage occupations and industries by automating routine tasks. However, implementing these technologies often requires significant investment in R&D and infrastructure. While the private sector already invests heavily in technology design, commercial interests do not always align with the public interest and the EU's strategic priorities. Hence, the EU's presence in technology design is of crucial importance.

## Recommendations

### **Address skills and labour shortages: wages, working conditions and technology**

You should monitor carefully the implementation of the Directive on Adequate Minimum Wages in the EU, particularly in shortage occupations where wages often lag behind jobs not affected by shortages. Active labour market policies, such as employment/wage subsidies, could bridge the gap between market and reservation wages, thereby alleviating labour shortages. An EU instrument allocating funds (grants and/or loans) to partially offset governments' revenue losses would enhance the attractiveness of such active labour market policies at member-state level. You should explore the potential employment impact of increased wages in shortage occupations, and provide an assessment of mobilising the ESF+ to promote better wages in these occupations.

### **Maintain the focus on improving working conditions**

There is an urgent need for a directive to improve working conditions in shortage occupations to attract more workers into these occupations, especially in sectors that will face increased



future demand, such as LTC. You should ensure that the welfare of formal and informal carers is reflected in the implementation of the Work-life Balance Directive, for example through the 2025 TSI on demographic change. Working with the commissioner responsible for home affairs and the European Labour Authority, you should also ensure that decent working conditions extend to third-country migrant workers.

### **Support the use of emerging technologies by assisting with the regulatory framework and providing funding**

The Platform Work Directive regulates algorithmic management for platform workers; however, algorithmic management extends beyond platforms. Therefore, you should facilitate discussions about expanding these rules to cover all workers. You should also ensure that the EU can leverage the opportunities offered by emerging technologies. To support innovative ideas that utilise technology to enhance employment access of underrepresented groups and to reduce labour demand in current and future shortage occupations, you should mobilise EU funds through specific calls for proposals under the EU Programme for Employment and Social Innovation or innovation actions under Horizon Europe.

### **Improve labour market support for older workers**

You should facilitate structural reforms and activation strategies for older people (aged 54 to 65) across the EU, to help them navigate changing labour markets. By preparing a proposal for council recommendations on addressing employment challenges faced by older workers, you can promote the development of an EU instrument that would help older workers remain active and engaged in the workforce for longer. Such an instrument would not only prevent widening labour shortages in already constrained occupations, but also has the potential to increase the effective retirement age beyond the statutory retirement age, thereby reducing the pressure on pension systems.

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## **Integrate the assessment of pension, healthcare and LTC policy**

You can play an important role in establishing a strategic, long-term vision for social policy and in helping member states achieve it. You are well-placed to make a holistic assessment of social security provision in old age, encompassing pensions, healthcare and LTC. Financial sustainability of these systems should be evaluated alongside adequacy of services. Low-cost access to high-quality LTC for the elderly could, for example, justify a lower pension level.

The European Care Strategy (European Commission, 2022) provides an important platform for exchange and identification of best practices. However, policymaking would benefit from a more holistic view of old-age welfare. You can play an important role in fostering such an approach together with other commissioners, particularly for economic and financial affairs. Such an effort should include data exchange and analytical work on a country-by-country basis, given the range of pension and LTC systems across countries and differences in the rapidity of population ageing. With a sound set of best practices in hand, EU countries can decide which actions are most appropriate for their circumstances.

The impact of social security reforms on the larger economy should also be analysed and taken into account. More funded pensions would notably help develop the base of institutional investors in the EU and provide capital for long-term projects, contribute to the deepening of capital markets and support investment in the EU more generally.

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## **Increase long-term care supply**

You should continue the coordination efforts regarding best practices in LTC policies within the European Care Strategy. Particular focus should be put on effective policies to increase the supply of LTC, in terms of both personnel and physical assets (facilities and equipment).

You and your colleagues should promote investment in care services and infrastructure in two ways. First, you can investigate which investments have proven effective across member states in the context of the European Care Strategy. Second, the Commission can provide financial support, for example through an expanded ESF+.

You should work to maximise use of the findings of the European Care Strategy in the 2025 TSI on demographic change. The TSI should notably carefully examine the impact of reform proposals on women and gender equality.

**EU funds should be used to finance research in support of healthy ageing**

### **Fund research into healthy ageing**

EU funds should be used to finance research in support of healthy ageing. This will be the most effective measure to contain the pressure on LTC systems in the future. Priorities should include technology to detect cognitive diseases early and medicines to treat them. Given the projected surge in the elderly population, it will be important to reduce LTC needs to minimise the pressure on public health systems. The EU can help identify and finance promising research projects in this area. Such projects could be prioritised under Horizon Europe and EU4Health.

### **Develop adequate data**

You should designate a specific portion of the funds given to member states as direct grants under the Programme for Employment and Social Innovation for the Labour Force Survey to be utilised to uncover the underlying factors influencing individuals' attitudes towards work. Based on better data, EU countries should be supported in the design of targeted interventions to address long-lasting issues such as weak labour market attachment of certain socioeconomic groups and low participation in job-related training.

Data on long-term care also remains scarce, especially on informal care, limiting policy planning. You should also promote harmonised data collection across member states on pensions and LTC. Connecting national data systems would not only be useful for policy planning but can also impact citizens' lives directly. For example, the full establishment of a cross-border pension database would promote labour mobility. Such efforts should be intensified in collaboration with other commission services that would benefit from better data.

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