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COMMUNITY-WIDE FRAMEWORK FOR EMPLOYMENT

(presented by the Commission)

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COMMUNITY-WIDE FRAMEWORK FOR EMPLOYMENT

1. INTRODUCTION

A high level of employment across all Member States and regions is a **fundamental objective** of the Community. Directly or indirectly, Community policies - the Internal Market, economic and monetary integration, the policies developed through the Structural Funds and the successive research and development framework programmes, co-ordinated policies in some areas, the pursuit of common objectives in others - have all made significant contributions to the goals of competitiveness, economic growth and employment.

Unfortunately, while the Community has grown in economic strength with increased integration and cohesion, progress on employment and unemployment has been less satisfactory, particularly in the last two years. Concern about the issue has been expressed through a number of **political positions** which have been taken up at Community level. In particular:

- the Council of Employment and Social Affairs Ministers passed a resolution in December 1992 on Action against unemployment;
- the European Parliament produced a report on the post-1992 European Labour Market in 1992;
- the European Social Partners have agreed a series of joint opinions in support of economic growth and improvements in the labour market, notably that of July 1992 on a Joint Cooperative Growth Strategy.

Most recently, the ECOFIN Council has supported the Commission's **economic growth initiative** - promoting economic recovery in Europe - launched at the Edinburgh 1992 Summit. The growth initiative ranges across a series of areas - public expenditure, private investment, support to small and medium sized firms, additional training, wage moderation and structural reforms.

The Commission has also prepared a major revision of the **European Social Fund** in order to strengthen its role in the fight against unemployment, and has continued to improve its analysis of employment issues through the annual **Employment in Europe** reports.

In the Informal meeting of the Ministers of Employment and Social Affairs on 3 and 4 May 1993, the Presidency of the Council expressed the need to strengthen the Community approach to combatting unemployment. While recognising that responsibility for employment actions lies primarily with themselves, the Ministers underlined the need for **supplementary coordination and action at Community level** in order to address the common problems of employment and unemployment.

Council members supported the presentation by the Commission of a proposal which would provide a **framework for actions** at all levels within the Community. It would also encompass the role of the Community in various ways in relation to employment.

This Communication responds to the Council request. It is based on four key **observations**:

- The current high level of **unemployment** is unacceptable. It is damaging both to the Community's competitiveness, and to the cohesion of its societies.
- Stronger economic growth is required, but the employment problem cannot be resolved by economic growth alone. A more **employment-intensive pattern of growth** is needed if employment needs are to be met.
- An **integrated policy response** is needed, mobilising all actors involved in employment matters.
- Primary responsibility for action lies with, and within, the Member States, but **closer co-operation** at the level of the Community is necessary - economically and politically - in order to ensure the maximum impact of national actions.

This Communication sets out the Commission's **proposals for a framework** within which a process of analysis and exchange of experience can be pursued in a structured and co-operative manner, between all the actors concerned, with a view to co-ordinated action. Procedural proposals are made, together with an outline timetable.

2. THE SCALE AND NATURE OF THE EMPLOYMENT PROBLEM

2.1. Unacceptable levels of unemployment

Over the past two decades, the rate of **economic growth** has averaged around 2% a year - much lower than in the two decades which went before. Employment creation has been insufficient to meet the growing demand for jobs and **unemployment** has shown a persistent and disturbing upward trend. While falling during the period of recovery in the latter part of the 1980s, it has risen by even more during the current period of recession.

Unemployment has once more climbed above 10%. **Over 17 million people across the Community are now out of work.** Almost half have been out of work for more than a year. On current forecasts, unemployment will continue to increase during the rest of this year and next. If current trends persist, by the end of 1994, it will be some way above the record level of 10.8% reached in 1985.

At the same time, progress has been limited in achieving **convergence** between regions in terms of employment levels, and in ensuring **equal opportunities** as regards access to the labour market. Many people - especially women - are effectively **excluded** from the labour market altogether.

2.2. Low rates of employment

The Community has a **low rate of employment** compared with other industrialised parts of the World. Less than 60% of the Community's population of working age are in work, compared with over 70% in the United States, EFTA and Japan.

The counterpart of such a low rate of employment is, not only high unemployment, but a large hidden labour supply. Thus, even when employment increases, **unemployment** remains high as new people enter the labour market. In the late 1980s, the creation of over 9 million new jobs only reduced unemployment by 3 million.

The consequence is that, in order to get unemployment down from current levels of over 10% to more acceptable levels - say 5% - the Community will have to create extra jobs on a scale large enough, not only to absorb the currently **recorded unemployed**, but also to meet the demands of those who will enter the labour market.

Job creation on that scale cannot be achieved on the basis of growth alone. Given the increased numbers wishing to work, 3.5% economic growth, with 2% productivity growth - the experience of the second half of the late 1980s - sustained over the rest of the decade, would still leave the Community well short of a target such as 5% unemployment.

3. THE EMPLOYMENT-INTENSITY OF GROWTH

3.1. Comparisons within and outside the Community

Levels of employment depend, not only on the rate of economic growth, but on the employment-intensity of that growth. **Employment-intensity** is determined, not only by the relative use of capital and labour - which determines the volume of employment for a given volume of output - but also by the way in which a given volume of employment is divided up between numbers of jobs and hours of work.

In this latter respect in particular, **experience between the Member States** varies. For example, while Belgium and Holland have similar levels of labour productivity, the Netherlands provide jobs for 10% more people of working age than Belgium. Equally, Denmark - with a lower level of income per head (measured in PPS) than the western part of Germany - has a much higher proportion of its population in work.

Comparisons with other industrialised countries are also revealing. In **Scandinavia**, the rate of employment has been at over 70% since the beginning of the 1970s. The main difference relative to the Community is in terms of activity rates of women. Indeed, activity rates of women in the Community, although growing, are still lower than in most of the economically developed world.

Over the past decade, the **United States** has sustained a similar rate of growth of GDP to the Community - around 2% a year, once allowance is made for changes in the growth of population. During this period, however, the rate of income growth per worker has been lower in the United States than in the Community - 1% as opposed to 2%. On the other hand, the United States' rate of employment has continued to rise during this period to a level of 70% today - 10 percentage points above the Community level. Thus, while the overall growth of incomes has been the same in the Community and the United States, a larger proportion of the United States population has had access to paid employment.

Japan has also succeeded in achieving higher rates of employment than the Community. In common with other industrialised countries, including the Community, a competitive traded goods sector with high productivity has been a means of generating income to create jobs in the service sector. The main difference is, however, that Japanese productivity in the service sector is lower than in the Community - thereby generating more employment - even though earnings in industry and services are much the same in both cases.

While a more employment-intensive pattern of growth inevitably implies a wider spreading of paid employment, the effect on the **distribution of income** depends on the economic, social and cultural situation in the countries concerned. For example, in Scandinavian countries, and in Japan, a high level of employment has been achieved with an income distribution narrower than that in the Community. The United States, however, has seen a widening in income distribution as its rate of employment has increased.

While experiences are not necessarily easily transferable from one Member States to another, or from outside the Community to inside the Community, such differences as exist are sufficiently wide to warrant more detailed analysis in order to identify what approaches are both adaptable to the Community, and compatible with its overall **economic and social aims**. In particular, the Community would need to ensure that any changes to existing policies were carried out in ways that do not exploit workers in a weak position in the labour market, or inhibit the development of the high value-added knowledge-based jobs which will be the key to future competitiveness.

3.2. Government actions and employment-intensity

In the face of high levels of unemployment, and long-term unemployment, governments have increased their expenditure on a range of **policies and instruments** designed, in general, to alter the incentive structures in the labour market in ways which can encourage a more employment-intensive pattern of growth, particularly in favour of the unemployed.

These measures have generally sought to make unemployed people more attractive to employers by reducing the costs of employing them, by increasing their value as employees through training or other help, or by addressing problems of mis-match or transition, for example between school and work. Thus, Government support

measures have taken the form of **grants, loans, tax incentives and subsidies** to the unemployed and to potential employers, as well as the **direct provision** of counselling and training services. Governments have also sought to change the **legislative environment** in ways which encourage greater labour market adaptability.

Programmes targeted on the unemployed demonstrate that changes in the **structure of incentives** operating in the labour market can be used to assist particular groups or individuals. In general, however, such policy actions have tended to take the form of **derogations** to existing national rules - for example, to reduce social security charges for the recruitment of the unemployed - or to have been directed at **specific issues** - such as the development of part-time work.

A **broader lesson** has to be drawn - namely that changes in the overall incentives structures might be pursued so as to bring about a more employment-intensive pattern of growth across the economy as a whole. This could have important benefits given the variations in incentive structures which currently exist within and between Member States.

For example, while employers' social contributions average 15% of wages and salaries across the Community as a whole, this varies between Member States - from virtually 0% to over 20%. The overall effects of such differences on employment can only be judged in the context of the taxation systems in each Member State. However, it is possible that the **employment intensity** of different sectors of activities, or the potential for employers to offer different types of jobs, may be affected by the incidence, or structure, of taxation.

The employment-intensity of production in the economy as a whole, in different sectors, or in different types of firms can be affected by the legal environment developed by governments in order to regulate the **workings of the labour market**. It can also be affected by other factors - the forms of work organisation and types of jobs developed within firms, the preferences and attitudes of those seeking to enter the labour market, or wider social and cultural changes regarding work, employment and life-style.

3.3. Community support

The Community's employment objectives have been **supported at Community level** by a wide range of policies and activities - economic, industrial, technological and scientific. In addition, however, the Community has focused on employment and related human resource issues through a variety of more specific activities.

These have included analysis and research, experimental action-research and pilot project programmes, the dissemination of best practice, as well as funding from the Community's structural funds, notably the European Social Fund - which encompasses both mainstream funding and specific Community Initiative programmes.

Analysis and research has, over the past 5 years, been exploited through the Commission's Employment in Europe reports which, on the basis of Community-wide comparative analysis, and exploiting the Community's labour force survey, has deepened understanding of the structure of the Community's labour markets and the relationship between employment and other economic and social developments.

Experimentation and evaluation has been pursued through action-research programmes - such as the local employment development action programme LEDA and the action programme against long-term unemployment ERGO, as well as through pilot project programmes on employment creation - notably the ILE programmes for businesses run by women, and the SPEC programme on innovative local employment actions in response to changes brought by the Internal Market.

Larger-scale pilot project actions have been undertaken within the framework of the European Social Fund's Community Initiatives - which encompass EUROFORM on new qualifications and new jobs, NOW on the employment of women, and HORIZON on the employment problems of the disadvantaged - as well as through relevant parts of the Poverty programme.

A series of **related actions on vocational training and on the integration of young people** into the labour market have also been pursued through the Community's programme on education and training for technology COMETT, the FORCE programme on continuing training in Europe, the EUROTECNET programme of training linked to new technologies, the PETRA programme on training for young people, and the IRIS programme on improving the access of women to vocational training.

The exchange of experience has been pursued through the **Employment Observatory system** which provides a structure for the collection, analysis, presentation, dissemination and discussion of Member State experiences covering both trends and structural changes in the labour markets, and the development of Member State policies.

In particular, the Community has developed, over a 10 year period, the Mutual information system on employment policies, MISEP, which provides a **full documentation of government policies** and structures for their implementation, including a growing volume of evaluations. This is now supported by SYSDem - which reports on research and analyses on employment and labour market issues within the Member States and provides a framework for discussion between policy makers and researchers at both national and Community level.

Policy development has been **reinforced** through funding from the European Social Fund which now contributes some 6 Becu towards active manpower measures undertaken by national governments within the structure of Community Support Frameworks - some **13% of total expenditure by Member States**, and a significantly higher proportion in priority regions of the Community.

That support has been targeted on the long-term unemployed and unemployed young people, and on the needs of less developed regions in the Community. The bulk of the support is for **vocational training**, although some support is provided for **employment subsidies** to encourage recruitment and, in the less developed regions, for vocational education in schools.

4. NEW FRAMEWORK FOR ACTION

From the above analysis, **three main conclusions** can be drawn:

- The scale and nature of Europe's employment problem are cause for major concern. Action is needed if the problem is not seriously to impair the Community's economic competitiveness into the 21st century, and to inflict considerable damage to the fabric of our societies;
- There is sufficient evidence and experience to suggest that ways of, at least, improving the situation can be found - over and above those which can result from higher levels of economic growth - by Governments adopting policy mixes which favour a more employment-intensive pattern of growth;
- Although the main instruments lie with, and within, the Member States, the Community has an important role to play as a catalyst, as a forum for coordination, and as a support through the use of Community level policies. Action at the level of the Community is also necessary for reasons which are both economic (because the growing interdependence of our economies requires active cooperation across all policies) and political (because it is vital that the Community take an active interest in an issue of such importance for the well-being of the citizens of Europe).

4.1. Objective

What is proposed, therefore, is that the Community institutions and the Member States commit themselves to a **structured, cooperative and systematic, process of analysis and policy reflection** on possible solutions to the employment problem with a view to concerted policy action, centred principally around the need to create a more employment-intensive pattern of growth in Europe.

4.2. Means

This needs to be a genuinely **collective process**, in which the Commission certainly has its role to play, but where individual Member States, groups of Member States, or groups of interests from within Member States will also wish to contribute ideas or analyses. Suitable means of involving the other Community institutions, such as the European Parliament and the Economic and Social Committee, need to be explored, as do appropriate mechanisms for associating the Social Partners.

The key starting point is the establishment of an **agenda** and a **timetable**, aimed at arriving at some operational conclusions over an eighteen month period between now and the end of 1994.

Given the complexity of the employment issue and, in particular, the fact that responsibility for employment matters in the fullest sense is often widely spread, a means of ensuring real **coordination** of the process is crucial.

In this context, a new, wider and more active role could be considered for the Standing Committee on Employment, which does bring together many of the main actors, though the question of inter-face with other fora would require careful attention.

4.3. Commission role

The Commission undertakes to **underpin this process** as well as to contribute analyses and suggestions for coordinated action. But this would in no way preclude others from doing the same.

In addition, the Commission will seek to promote the **transformation of successful Community pilot experiences** into mainstream policies, on the basis of a systematic evaluation of successful experiences and measures, such as those described in section 3.3 above.

More generally, it is the Commission's intention to apply its **financial support** in ways which can contribute to the overall objective of employment expansion. The proposed reform of the European Social Fund - which aims to increase the flexibility of the Fund, to anticipate labour market developments and to link the Fund more with policy-driven objectives - is a step in this direction. In particular, however, the Commission intends that any future Community initiatives in this area will be able to support experimentation and innovation on a trans-European basis.

4.4. Issues for analysis and action

The Commission intends to present **analyses and suggestions for co-ordinated action** in a number of different areas. As far as specific **issues** are concerned, the Commission has identified, in particular, the following:

- **adaptability** at the workplace, and the potential for developing **new forms of employment** based on new forms of work organisation
- the development of **new working time structures** able to expand employment opportunities;
- the development of **training systems** and qualifications able to improve integration into the labour market, and anticipate structural change
- investigating the scope for reducing **labour costs** and increasing employment-intensity, notably by modifying the incidence of taxation systems;

- the exploitation of the employment growth potential of **new areas of work** - the environmental industries, the arts, household services etc;
- the creation of employment through small businesses, and self employment, and the role of **SMEs** generally;
- the role of **local initiatives** and local economic and employment development in strengthening the capacity of areas to create employment;
- the role of **different agencies and partners** in developing efficient external labour markets.

4.5. Procedures and organisation

The Commission intends to establish the necessary **internal procedures** in order to implement and follow-up the programme of actions outlined in this Communication.

Discussions on current employment concerns have already begun in **Informal meetings** of Ministers - not only of **Employment Ministers** but of **Economic Affairs Ministers** and **Environment Ministers**. Other Ministers potentially concerned can be encouraged to address these issues, initially on the basis of this document.

The question of how best to orchestrate this complex process will need careful attention.

5. CONCLUSIONS

The **Commission** requests that the **Employment and Social Affairs Council**:

- Agrees the need to develop a **Community-wide framework** within which the Member States and the Community can conduct a process of comparative analysis with a view to promoting a more employment-intensive pattern of growth in a co-ordinated way;
- Notes the need to urgently consider how best to associate all those with **responsibilities which indirectly or directly affect employment** - including other Council members - in addressing employment concerns, and in exploiting employment opportunities, within the Community-wide framework;
- Accepts the Commission's proposal to present a **rolling programme of work**, to the end of 1994, based on the approach of this paper;
- Agrees to associate all relevant **partners** at local, national and Community level, notably the **Social Partners**, in the development of appropriate responses.

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DOCUMENTS

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