

THE EUROPEAN PACT FOR EMPLOYMENT

*Documents for the Round Table
convened by Jacques Santer,
President of the European Commission,
on 28 and 29 April 1996
in Brussels (Palais d'Egmont)*

1. Draft programme
2. List of invited people
3. Reference document presented to the Round Table by Jacques Santer
4. Questionnaire for the participants at the Round Table
5. Initial synopsis of the social partners' replies to the questionnaire
6. Conclusions on employment of the Essen European Council, 9-10/12/1994
7. The social partners guidelines (May 1995) for turning recovery into a sustained and job-creating growth process
8. Joint declaration (October 1995) of the social partners to the Madrid European Council
9. Conclusions on employment of the Madrid European Council, 15-16/12/1995
10. Conclusions of the Chair of the G7 meeting on employment in Lille, 01-02/04/1996

**ROUND TABLE ON EMPLOYMENT
BRUSSELS, Palais d'Egmont
28 and 29 April 1996**

Draft programme

Sunday, 28 April

Registration - Coffee - Tea

16.00 - 18.00 Opening session : *"The European Pact of confidence for employment : general issues and overall approach"*

16.00-16.30 Opening speech

16.30-18.00 Interventions of the social partners (*)

19.15 - 22.30 Dinner

Monday, 29 April

9.00 - 13.15 Plenary session : *"The European Pact of confidence for employment : structural questions concerning the labour market (with particular reference to labour market flexibility and organisation, labour costs and social security, education and training, employment creating mechanisms)"*.

9.00-11.00 Debate (**)

11.00-11.15 Coffee break

11.15-13.15 Debate (**)

13.15 - 15.15 Lunch

15.15 - 16.00 Closing session : conclusions by the President

(*) 45 minutes for the employers' organisations and 45 minutes for the Trade Unions

(**) In order to have a wide and lively debate, each intervention will be limited to 5 minutes (500 words)

Interpretation will be provided in the eleven official Community languages.

UNICE

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21/03/96

Invités à la Table Ronde des 28 et 29 avril

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21/03/96

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21/03/96

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20/03/96

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EUROPEAN PACT OF CONFIDENCE FOR EMPLOYMENT

Reference document prepared for the
Round Table on Employment
(Brussels, 28 and 29 April 1996)

A PACT, WHY?

There are three reasons for promoting a European pact of confidence for employment in 1996:

- (i) unemployment has been endemic in Europe since the seventies. Moreover, the rate of structural unemployment is increasing regularly. Between 1991 and 1994, total employment fell by 4% in Europe.
- (ii) a climate of confidence must be restored in Europe. It is a prior condition for a recovery in investment and consumption. Ways must also be found of amplifying the measures taken in several Member States to contend with worsening unemployment.
- (iii) the introduction of a single currency on 1 January 1999 must be placed in the context of a comprehensive economic strategy to enhance growth, competitiveness and employment in Europe.

The persistence of a very high rate of unemployment is undermining European society. We must do something. Firstly, a realistic diagnosis must be made. Europe is confronted with three challenges. It must achieve

- stronger growth
- more job-intensive growth
- growth centred more on the "areas of the future".

There is nothing new in this. It was at the root of the strategy proposed in 1993 in the Commission's White Paper on Growth, Competitiveness and Employment and was further developed by successive European Councils. The aim of this strategy is to increase both the efficiency and competitiveness of the European economy and to improve the operation of the labour market. It is still relevant and must continue to serve as a reference for common action.

But the time has come for a first progress report: what stage have the actors reached in their commitments? What has functioned well? Where did difficulties arise? What has not worked? On the basis of this diagnosis, it will be possible to go further and to be more efficient.

HOW TO RESTORE CONFIDENCE?

The Pact flows from an unshakeable belief in the value of concerted European action at all levels of responsibility. A lucid assessment of the current situation reveals three shortcomings in action undertaken to date: firstly, an incomplete vision, unduly focusing on the short term; secondly, unsatisfactory use of the possibilities offered by Community integration; and thirdly, inadequate mobilization of the various actors concerned. These are shortcomings which must be remedied in order to restore confidence, the basis for a dynamic and coherent strategy for employment.

1. A real effort to explain

The purpose of the Pact is to convince, firstly, on the basis of a medium and long-term view of society. By anticipating the changes which presage the society of tomorrow, we will be better able to deal with today's contradictions. An ageing population, technological development, increasing globalization of the economy are all decisive factors to be taken into account. Europe has enough resources not to be overcome by these trends. It can seize the opportunities which are opening up to it by mobilizing at all levels its many assets.

Secondly, to convince of the need to abandon a piecemeal approach. Too often, efforts are confined to one-off measures which are certainly praiseworthy but inadequate. Flexible working conditions is an eloquent example. Seen from a simplistic angle, flexibility can be perceived as an instrument used by the strong against the weak. The perception changes if flexibility and job security are placed side by side, if a better match is sought between flexibility, social security schemes and education and training systems.

2. The European multiplier effect

The current crisis in confidence in Europe is caused by the objective difficulties which people encounter, but it is not really justified when one looks at the continent's potential. While weaknesses should not be concealed, Europe's considerable assets should not be eclipsed; its democratic structures, its strong economy, the high level of education of its inhabitants and also Europe's unification process which, despite all the obstacles, progresses, step by step, both in substance and in geographical terms.

Who can deny the beneficial effects of this process, both politically or economically? But it is also true that we do not yet use to the full all the possibilities which it offers.

That is certainly true in the fight for employment. There, as elsewhere, the degree of interdependence of our economies means that sustained coordinated action gives more added value than the sum of disparate individual measures. On the macroeconomic level, convergence is as much an imperative as an opportunity in

a market of 370 million inhabitants. We have seen the damage inflicted on the economy in the past by deficient macroeconomic coordination.

Excessively nationalistic approaches such as in research, or in the large networks, or in anything to do with the single market deprive the European economy of the value added of action at Union level.

Even structural measures which are mainly national, would profit from being coordinated more closely at European level. To reduce indirect non-wage labour costs alternative financing arrangements must be found for social security schemes. Each Member State is obviously free to adjust taxation as it sees fit, but it must take the European context into account, as is shown in the framework initiative relating to social protection proposed by the Commission and discussed by the Council on 29 March and the reflection paper which the Commission presented to the informal meeting of the Ministers for Economic and Financial Affairs in Verona.

3. Full mobilization of all the actors in a comprehensive strategy

The aim of the proposed measure is to make the fight against unemployment the concern of all. That of governments first of all, whether in their national action or in action at Community level through the European Council and the Council of Ministers. The European Council "approved" the Commission's 1993 White Paper; the Council of Ministers should act on it.

It should also be the concern of local and regional authorities, because this is where jobs are created.

The concern, too, of the European institutions - the Council, the European Parliament, which directly represents the people of Europe and thus the unemployed, the Committee of the Regions, which speaks for local and regional interests, the Economic and Social Committee, where the leading players in society come together, and the Commission, the defender of the general interest.

Lastly, it is the concern of the social partners, who must feel that they are involved whether at local, national or European level. Their contribution will be crucial, in keeping with the traditions of the large majority of the Member States.

The main aim of the European Pact is to create the conditions for participation by all the actors, at all levels of responsibility, in the fight against structural unemployment, with each body or group exercising its own specific powers without infringing each other's responsibility. The overall, coherent European strategy approved by the Heads of State is not an end in itself but a means to enable the various actors to situate their own contribution in a wider perspective and coordinate it effectively with that of the other partners.

WHAT WILL THE PACT CONTAIN?

The Pact will not take the form of a legislative text negotiated and concluded at Community level. Nor will it mean changing Economic and Monetary Union, increasing the level of Community expenditure or introducing new Community powers. Rather, it will be a joint initiative to obtain - in ways to be defined at a later date - the most detailed undertakings possible from the players involved.

The content of the Pact cannot be dictated or decreed. The Commission wants to consult the parties concerned. This is the reason for President Santer's visit to the Member State capitals and for the Round Table of social partners. The joint meeting of the Economic and Finance Ministers and the Ministers for Social Affairs on 3 June and the tripartite meeting announced by the Italian presidency will throw more light on the subject. Debates on the Pact may also be organized by the European Parliament, the Economic and Social Committee and the Committee of the Regions.

For its part, the Commission will draw up a joint communication on the question of employment and how it views the Pact of Confidence before the Florence European Council. It hopes that this will contribute to the success of the Florence European Council, where employment will be the dominant theme. In Florence, the Heads of State or Government will then launch a European pact of confidence for employment, setting out the steps to be taken in order to lead to specific commitments in Dublin.

The broad lines of the Pact, which will gradually be refined, are already beginning to appear.

1. Pursuing a sound macroeconomic policy

The general philosophy of the macroeconomic framework rests on the coordination of budgetary policies which aim for a high level of convergence and adequate wage progression, which together should provide the conditions for relaunching productive investment. The conditions exist today to make an additional reduction in interest rates possible, provided that the Member States show real determination with due respect for the criteria for Economic and Monetary Union. Convergence is also necessary to ensure that external turbulence does not have a negative effect on exchange rates within the European Union and on growth, as was the case in 1995, for example.

The markets need a clear framework and a predictable and credible policy. That is why the often restated determination of the European Council and the Council of Ministers to introduce the single currency on the agreed date is so important. The approach taken is beginning to pay off, restoring the confidence of economic operators in Economic and Monetary Union. The single currency will be introduced as planned and it will be a factor for growth, competitiveness and employment.

2. **Highlighting the European dimension in the strategy for employment.**

The Union itself has a significant role to play in setting up a favourable framework for growth and employment. It goes far beyond making direct financial contributions to one or other project. The Commission will set out its ideas in detail in the joint communication referred to above. For the moment, the following broad areas of action can be identified:

Making better use of the single market

Considerable progress has been made in ten years. The large single market has given European firms an immense domestic base, which will grow even more with future enlargements. This offers significant potential advantages for competitiveness and employment, and for new joint action - illustrated by the introduction of a universal service at European level in the telecommunications sector, for example. The liberalization process is now and will in future be conducted with the requirements of public service in mind, as the Commission's opinion on the Intergovernmental Conference pointed out.

But obstacles remain in important areas, and in these cases the Commission considers that the European Council should set specific target dates for their removal. Furthermore, the transposition and application of legislation requires constant effort. That is why, in its opinion on the IGC, the Commission asked for more effective resources to ensure compliance with Community law in this area.

Finally, it is particularly important to take decisive steps to implement a constructive policy to benefit small and medium sized businesses. The Commission has just adopted proposals on this subject which must be acted on as a matter of urgency.

Encouraging partnership between the public and private sectors for the financing of infrastructure and research

The Commission has recently made concrete proposals to redirect expenditure towards high growth and employment sectors. The Community's financial contribution to the trans-European networks, for example, is important as a catalyst. This is why the European Council has repeatedly asked the Council of Economic and Finance Ministers to find a way, on the basis of a Commission proposal, to increase available funding. Finding a solution is a matter of credibility.

However, it is clear that Community finance will, in any event, represent no more than a limited part of the funding needed. Hence the importance of devising innovative partnerships between the public and private sectors. This approach should also be used in other areas, particularly in the field of research, given its positive impact on employment.

Strengthening the common commercial policy

In an increasingly interdependent world, the Union has a major advantage - provided that it presents a united front, ensures that multilateral agreements are respected and opens up new markets, because exports create jobs.

This is the thrust of the Commission's recent communication on market access. The Union will protect the interests of European industries against unfair competition or piracy of its intellectual property.

Taking the employment factor into account in other Union policies

The Commission feels that more consideration could be given to the question of employment in other Union policies. In concrete terms, it will be proposing that Structural Fund expenditure be used for this purpose by emphasizing, for example, local employment initiatives and anticipation of industrial changes.

It also intends to draw operational conclusions from the consultation underway on the basis of the White Paper on education and training, with a view to promoting employment and emphasizing skills, making use of the possibilities offered by the information society.

With regard to the IGC, the Commission will seek to insert specific provisions on employment in the new Treaty, as announced in its opinion of 28 February 1996.

3. Modernizing the labour market

At the Essen European Council in 1994, five structural objectives were defined; the Member States undertook to reflect these in their respective multiannual programmes. The project is therefore in motion and shows promise. A first assessment report by the Council (Economics and Finance Ministers and Ministers for Social Affairs) and the Commission was presented to the Madrid European Council. The new interim report to be submitted to the Florence European Council will provide an opportunity to review the state of play.

The implementation of active employment policies to progressively replace simple unemployment insurance or social welfare, is primarily a national matter. Progress has been made, but it is slow. More should be done in areas such as targeted reduction of non-wage labour costs, reform of training and education systems, ordering of policies pursued by institutions responsible for unemployment insurance, social welfare and retraining.

Questions relating to the operation of the labour market concern not just the national and regional authorities, but also - to varying degrees in the different Member States - the social partners. Their involvement should be progressively increased at all levels. That is the reason for the Round Table. It would be useful to know - apart from the broad lines which have already emerged and differences of opinion - what specifically the two social partners are willing to contribute to the Pact in the areas which directly concern them.

With particular regard to action at the European level, what prospects are there for continuing along the path laid out by the social chapter of the Maastricht Treaty? Parental leave is one example. But one could consider others such as working hours, the relation between flexibility and job security, integration of young people into working life, and the definition of broad areas of agreement between the two sides of industry on the role of training.

The Round Table is one stage in a process which includes many others, such as the joint meeting of the Economic and Finance Ministers and the Ministers for Social Affairs on 3 and 4 June and the Tripartite Conference on 14 and 15 June, the objective being for the parties concerned to agree, in the light of the above discussions, how the pact is to be implemented in practical terms.

Round Table on Employment

Brussels, 28-29 April, 1996

Questionnaire for the Participants

In addition to discussing the macro-economic policy mix and possible Community initiatives that support employment, the Round Table could focus on four broad themes more directly linked to job creation and which should be seen in an overall perspective:

Labour market flexibility and organisation

Labour costs and social security

Education and training

Employment-creating mechanisms.

For each theme, the current situation should be analysed to identify strengths and weaknesses. This analysis should result in policy options and concrete initiatives focusing on the contribution which the social partners can make, whilst also defining the responsibility of the public authorities at European, national or regional level. These contributions could become part of a global Pact for Employment.

In order to stimulate the debate during the Round Table, we thought that the enclosed questionnaire would be of assistance. We would appreciate receiving your answers, in combination with any other suggestions you might have, by the 5th April 1996. Please send your replies to the following address:

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J-37 5/06
200 rue de la Loi
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Deadline: 5 April 1996

1 - Labour market flexibility and organisation

1. Working time

More flexibility in working time arrangements could enhance the participation in the labour force and be conducive to job creation.

- 1.a *Which forms of working time flexibility (over different time horizons and at all stages of working life) could contribute to job creation without increasing costs for enterprises?*
- 1.b *What is the link between working time reduction and job creation?*
- 1.c *What kind of flexibility in contractual working arrangements (e.g. temporary or part-time contracts) could contribute to employment creation?*

2. Work organisation

The advent of new technology, changing structures of production and new organisational structures for enterprises imply that the work organisation needs to be adapted in order to enhance productivity and employment.

Which new forms of work organisation are most conducive to productivity and employment, and at which level should decisions be taken on their introduction at enterprise level?

3. Flexibility and social protection

Current systems of social protection are not always adapted to a more flexible labour market.

Which are the major changes needed in the systems of social protection (e.g. social protection schemes in case of temporary or part-time work) in order to adapt them to a more flexible labour market and organisation of work?

4. Mobility

Obstacles to geographical, occupational or sectoral mobility could hamper the working of the labour market and thereby impede job creation.

What are the main measures (regulatory or in terms of adaptation of skills) that would help employment creation through improved geographical, occupational or sectoral mobility?

5. Equal opportunities

Low female participation in the labour market is one proof of the inefficient use of human resources and the constraints put on personal development by a lack of equal opportunities, such as the possibility to reconcile family and working life.

Which are the most important obstacles that hamper the realisation of equal opportunities on the labour market?

II - Labour Costs and Social Security

1. Wage policy

At the macro-economic level, the importance of wage moderation (i.e. real wage increases below productivity increases) for stimulating job-creating investment is now widely accepted.

- 1.a *How can wage moderation in practice contribute to employment (e.g. profit-sharing, wage structure closer to productivity levels)?*
- 1.b *How best to achieve job-creating wage moderation?*

2. Non-wage labour costs

High non-wage labour costs (e.g. social security contributions) can inhibit job creation, especially for low-skilled workers.

- 2.a *In which sectors of the economy would employment for low-skilled workers improve most from a reduction in their non-wage labour costs (e.g. low-tech manufacturing, services)?*
- 2.b *Fiscal discipline requires that a reduction in non-wage labour costs is financed in one way or the other. Which ways of financing would be most conducive to overall growth and employment?*

3. Social security

Through its interactions with the labour market, the set-up and the operation of the social security system has an important impact on employment in many countries.

- 3.a *How could unemployment benefit systems be organised such that they give the necessary social protection, and at the same time provide financial or other incentives to find a way back into employment, either directly or through acquiring new skills?*
- 3.b *How can income tax schemes be adjusted (e.g. negative income tax) such as to increase the net income received when moving from being out of work towards being employed in a low wage scale?*
- 3.c *Which other aspects of the social security system (e.g. sickness and health insurance, retirement schemes) need to be adapted or made more efficient in order to become more conducive to employment?*

III - Education and training

1. Labour market mismatches

It is often stated that some labour markets are characterised by an excess demand for high and medium-skilled labour, and an excess supply of low-skilled labour (e.g. long-term unemployed, insufficiently qualified schoolleavers), although in some countries high unemployment also affects high-skilled labour.

- 1.a *Which measures would be efficient in terms of reducing the mismatch between demand for high-skilled labour and supply of low-skilled labour (e.g. recruitment more oriented towards future skills and needs)?*
- 1.b *Would education and training systems need to be adapted in order to reduce the inflow of unqualified schoolleavers on the labour market?*
- 1.c *Which role in reducing the mismatches on the labour market can be played through using the tools from the information society in education and training systems?*

2. Long-term unemployed

The phenomenon of long-term unemployment aggravates the mismatches on the labour market because it deteriorates skills and makes them outdated.

What are the most efficient means in terms of education and training (including job experience) in order to provide job opportunities for the long-term unemployed and in order to prevent newly unemployed persons from becoming long-term unemployed?

3. Young people

Many young people have the skills but not the job experience to find a job.

Which schemes (e.g. apprenticeships) would be most effective in providing young people with the job experience they need in order to have a perspective for durable employment?

4. Continuous learning

The continuous upgrading of skills of those who are employed ensures the dynamism in enterprises which is needed to provide new job opportunities and prevent jobs from disappearing.

Through which schemes (e.g. education vouchers) could continuous learning be

made attractive and accessible for both employees and employers?

IV - Employment creating mechanisms

1. Job-creation packages

The changes which are needed to stimulate employment require an effort from governments and a give and take between social partners.

What is the experience regarding the factors which render job-creation packages successful (e.g. the level at which they were concluded, the most important trade-offs, their effectiveness in creating jobs)?

2. Encouraging job-creating potential

Some sectors, activities or types of firms seem most promising as regards their job-creating potential.

Which policies would be conducive to stimulating sectors, activities or types of firms with a high job-creating potential (e.g. SMEs, R&D, Innovation, Environment)?

3. Proximity services and local development initiatives

One of the ways to link employment creation to unfilled needs in society is through proximity services and local development initiatives

In a context of fiscal discipline, what are the most cost-effective ways of creating jobs through these proximity services and local initiatives?

4. Employment services

An important aspect of matching supply and demand on the labour market concerns employment services.

Which improvements are needed in the content and set-up of existing employment services (e.g. placement, counselling and guidance) in order to facilitate the contacts between job seekers and enterprises?



Brussels, 24 April 1996
D(96) JPT/sj

ROUND TABLE ON EMPLOYMENT (28-29 APRIL 1996)

Initial synopsis of the social partners' replies to the questionnaire

INTRODUCTION

- 1 The Commission has received more than 30 replies to the questionnaire sent to the social partners, providing a wealth of information, particularly on how the questions posed can be regarded in the light of the specific situations in the various countries. This synopsis can offer only a very brief and incomplete account of the replies, which bear witness to the interest of the organisations concerned in the proposal for a European Pact, and to their desire to contribute to a quality debate at the Round Table on 28 and 29 April 1996.
- 2 The replies received confirm the social partners' concern to be involved in a **discussion on all aspects** of promoting employment and helping economic players to regain confidence, and not just on structural questions relating to the employment market. Most contributions refer to the importance of the macroeconomic guidelines adopted at European level and of the cooperation process launched at the Essen European Council. The proposal for a Confidence Pact is also welcomed as an important supplement to this cooperation process, provided that the responsibilities, political commitment and possible input to be provided by the various players concerned (complementarity between European and national levels, Commission proposals on the TEN and research, etc.) are made absolutely clear.
- 3 The replies received do not devote equal attention to all the items in the questionnaire. Some themes have given rise to more substantial comments than others. Flexibility, for example, is covered in greater depth than education and training. Even within each of the four themes proposed, priority has been given to specific questions, e.g. working time, equal opportunities, young people, and the development of services. The replies testify to the overall interest in questions

posed and the scope for debate at the Round Table. However, the section of the questionnaire on labour costs and social security has caused workers' organisations to express a number of reservations.

- 4 Generally speaking, the replies received confirm the points of agreement and disagreement between the social partners which have already been identified elsewhere. The points on which the two sides are closest are those on which joint agreements or declarations have been achieved at European level (e.g. overall medium-term economic strategy, equal opportunities, education and training). The points of greatest disagreement are the approach to labour costs, the "trade-off" between wage restraint and job creation, and the revival of consumption.

I LABOUR MARKET FLEXIBILITY AND ORGANISATION

- 5 The flexibility of working time is a point which has attracted the attention of many organisations. Employers and workers agree on the need to develop new forms of work, with employers stressing the anticipated effects of flexibility on the adaptability and competitiveness of businesses, while workers' organisations emphasise the need to share out employment and take account of workers' different situations and expectations.
- 6 The replies bear witness to a divergence in points of view on how a reduction in working time can contribute to job creation and how atypical forms of work should be regulated. However, going beyond this, they also show that there is a certain amount of agreement, e.g. on the annualisation of working time, the reduction of overtime, the need to reconcile flexibility and security (particularly in terms of social protection), especially to make part-time work more attractive, the importance of negotiations at company and/or branch level, the benefits and diversity of new forms of employment in terms of reconciling family life and work, and the positive approach as regards lifelong working time flexibility (see also in connection with the reduction of working time, young people and older workers). This suggests that there is scope for negotiations between the social partners at European level on the adaptation of working time and the organisation of work.
- 7 The replies received concerning mobility vary considerably (occupational mobility, internal or transnational geographical mobility). The trend is towards measures encouraging mobility or compensating for its cost, even if mobility in itself is not a factor in job creation. Some respondents have drawn attention to the contradiction between the increasing precariousness of employment and employment contracts on the one hand and the geographical mobility expected of workers on the other. Another question raised by white-collar workers is the scope for transferring pension rights.
- 8 Workers' organisations emphasise the continuing job-market segregation between women and men (quality of jobs, access to continuing training), and one organisation raises the problem of discrimination against ethnic minorities.

II. LABOUR AND SOCIAL SECURITY COSTS

- 9 As mentioned, this part of the questionnaire brought out reservations on the part of workers' organisations, which emphasise the fact that the wage restraint which has prevailed in recent years has not had any trade-off in terms of job creation, as companies have tended to use any increase in profits for financial investment rather than productive investment. Similarly, workers' organisations contest an approach to social protection which reduces it to a burden on the economy, and they dispute the fact that reducing non-wage labour costs has a significant long-term effect on employment (cf. substitution and windfall effects of employment aids). They emphasise the need to maintain a high level of social protection, particularly as exclusion is increasing.
- 10 The replies from employers' organisations do not address the link between wage restraint and job creation. Calling for wage policies to be established at company level, they concentrate on the reduction of non-wage labour costs, which they consider essential if employment levels are to be maintained (and even more so if jobs are to be created), especially in the sectors most exposed to international competition. In particular, they emphasise the need to restrict public spending (notably the control of health expenditure and improved targeting of benefits) and advocate more active spending on unemployment. They call for a reduction of levies on wages, particularly low wages (though without proposing alternative forms of financing, the tendency being rather to call for savings).
- 11 The points of divergence are thus clear, and classic. However, a positive approach could be explored in connection with certain aspects of the problem, e.g. more active spending on unemployment could simultaneously address the concerns of both sides, if emphasis is placed on reskilling measures for the unemployed and their rapid reintegration into working life rather than on passive measures, and if it is acknowledged that there are still gaps in social protection for the unemployed.

III EDUCATION AND TRAINING

- 12 Most organisations agree that there is a "mismatch" between supply and demand on the labour market - thus constituting a major shortcoming. This mismatch is not just a gap between the levels of job supply and demand, but - and for some this is the major point - it also reflects a discrepancy between skill supply and demand.
- 13 The calls for an "analysis in terms of skills" of supply/demand adjustments on the labour market seem likely to give a decisive market-rebalancing role to policies relating to qualifications and skill acquisition and to problems of skill accreditation and recognition. They confirm that the labour market must be regarded as a skills market (in terms of both supply and demand), as skills would appear to be a major factor in labour market regulation or imbalances.

- 14 Opinions as to causes and solutions differ considerably. The trade unions put the problem down to the lack of jobs and call for new job creation sources to be developed. Some employers pose the question of the inadequacy of opportunities offered by the education system and, in connection with the debate on flexibility, refer to the possibility of wage adjustments (presumably during the period of integration into the labour market).
- 15 As regards young people and the long-term unemployed, the replies received confirm the positions often expressed in connection with forward-looking labour market management, anticipation of change or the need for action at the start of the unemployment process in order to prevent cumulative phenomena leading to long-term unemployment. However, attention must also be drawn to a degree of change in the approach to training for young people. The need for basic training in close conjunction with the company (apprenticeship) to permit genuine integration into the labour market and active life is reaffirmed by many organisations, but with the emphasis more on the possible responsibility of the social partners in achieving this objective.
- 16 As regards continuing training, three aspects should be noted. First of all, confirmation of the importance of access to skills as part of continuing training, now seen as life-long access to training, though of course with significant differences in terms of the "founder factor" (existence of a right or not), the responsibility for financing, and procedures (training leave or other form). Secondly, certain relatively new attitudes to the reciprocal responsibilities of the various players, particularly the public authorities (society) and companies (role sharing could be based on the responsibility of society for basic training and a permanent process of occupational "skilling" to be considered among the economic players and within companies). On the same lines, several organisations (particularly employers' organisations) emphasise the importance of developing a system of incentives (particularly tax incentives) to encourage training. Several organisations (particularly trade unions) put the accent on developing and enforcing the concept of "capital – time – training" in the more general context of the reorganisation of working time. Perhaps it would be possible to combine the debate on lifelong access to training with that on flexibility and costs.

IV JOB CREATION MECHANISMS

- 17 In 1995 the social partners drafted joint texts on these matters and agreed on many points regarding the factors which are conducive to job creation, including the credibility of macroeconomic policies and the development of an environment which is favourable to investment (particularly productive investment) targeting the obstacles to a return of confidence. The trade unions also emphasise the lack of demand, the negative effects of inadequate job security on consumption, and that the fact that wage moderation has not been accompanied by the measures expected in return from companies, central banks and governments.
- 18 The social partners also agree on the need for policies which take account of the specific requirements of SMEs (as long as it is not just a question of deregulation)

and measures conducive to the development of the services sector – one of the main sources of jobs – provided that the support given to the non-market economy does not give rise to distortions of competition or increase the level of contributions levied on active persons.

- 19 Several organisations put forward the idea of agreements with local (or regional) authorities with a view to promoting employment ("local development pacts"), and some suggest that the aims of such agreements could include better use of the Structural Funds.
- 20 There is a very wide consensus on the need to improve employment services, though it is acknowledged that this is not enough to bridge the gap between supply and demand on the labour market. One organisation has called for the EURES system to be extended to cover white-collar workers.

European Council

Essen, 9 and 10 December 1994

Presidency Conclusions

Economic Issues

1. Improvement of the employment situation

The fight against unemployment and equality of opportunity for men and women will continue in the future to remain the paramount tasks of the European Union and its Member States. The current economic recovery will help in dealing with these tasks. That recovery is not, however, in itself sufficient to solve the problems of employment and unemployment in Europe. We shall therefore have to make further efforts to solve the structural problems. In this process an important role will be played by dialogue between social partners and politicians in which everyone concerned will have to assume their responsibilities fully.

The measures to be taken should include the following five key areas:

- 1) Improving employment opportunities for the labour force by promoting investment in vocational training. To that end a key role falls to the acquisition of vocational qualifications, particularly by young people. As many people as possible must receive initial and further training which enables them through life-long learning to adapt to changes brought about by technological progress, in order to reduce the risk of losing their employment.
- 2) Increasing the employment-intensiveness of growth, in particular by:
 - more flexible organization of work in a way which fulfils both the wishes of employees and the requirements of competition;
 - a wage policy which encourages job-creating investments and in the present situation requires moderate wage agreements below increases in productivity, and - finally, the promotion of initiatives, particularly at regional and local level, that create jobs which take account of new requirements, e.g. in the environmental and social-services spheres.
- 3) Reducing non-wage labour costs extensively enough to ensure that there is a noticeable effect on decisions concerning the taking on of employees and in particular of unqualified employees. The problem of non-wage labour costs can only be resolved through a joint effort by the economic sector, trade unions and the political sphere.
- 4) Improving the effectiveness of labour-market policy: The effectiveness of employment policy must be increased by avoiding practices which are

detrimental to readiness to work, and by moving from a passive to an active labour market policy. The individual incentive to continue seeking employment on the general labour market must remain. Particular account must be taken of this when working out income-support measures.

The need for and efficiency of the instruments of labour-market policy must be assessed at regular intervals.

- 5) Improving measures to help groups which are particularly hard hit by unemployment:

Particular efforts are necessary to help young people, especially school leavers who have virtually no qualifications, by offering them either employment or training.

The fight against long-term unemployment must be a major aspect of labour-market policy. Varying labour-market policy measures are necessary according to the very varied groups and requirements of the long-term unemployed.

Special attention should be paid to the difficult situation of unemployed women and older employees.

The European Council urges the Member States to transpose these recommendations in their individual policies into a multiannual programme having regard to the specific features of their economic and social situation. It requests the Labour and Social Affairs and Economic and Financial Affairs Councils and the Commission to keep close track of employment trends, monitor the relevant policies of the Member States and report annually to the European Council on further progress on the employment market, starting in December 1995.

The first reports will be used to examine, on the one hand, the effects of tax and support systems on the readiness both to create and to take up jobs and, on the other, the inter-relationship between economic growth and the environment and the consequences this has for economic policy. The European Council notes with interest the information provided by President Delors on changes in the present model of economic growth and economic objectives in relation to the environment and time management.

The European Council also noted the experience of Denmark, Ireland and Portugal in developing a framework at national level and structures and procedures at local level, in order to support an integrated concept for development at local level.

Brussels, 16 May 1995 - EN

The Social Partners guidelines for turning recovery into a sustained and job-creating growth process

Joint opinion elaborated by the Macroeconomic Group of the Social Dialogue.

1. The European Social Partners have a deep and shared concern about the level of unemployment in Europe which threatens economic and social cohesion. In this context they have a common recognition - in line with the White Paper on Growth, Competitiveness, and Employment - that unemployment must be fought in ways which promote competitiveness and a strong and sustainable economic development. It is essential that the problems of growth, competitiveness and employment be tackled together.

2. The ETUC, UNICE and CEEP welcome the fact that in the EU as a whole the present economic recovery seems soundly based, as it is led by a strong export performance of the European economy and by increasingly strong signs of an investment pick-up as well. Nevertheless, the situation in some Member States remains worrying, particularly with regard to fiscal balances. More generally, the Social Partners are very conscious that past mistakes must be avoided and the right policies pursued, if the emerging recovery is to be turned into a lasting growth process underpinning sustained reductions of unemployment and strengthening the internal cohesion of the European Union. Accordingly, this joint opinion - which builds on previous opinions of the macroeconomic group of the Social Dialogue - is a contribution to the preparation of the EU's Broad Economic Policy Guidelines and to the Essen employment monitoring procedure. They welcome the active role envisaged for the participation of the Social Partners in both procedures.

3. While absolutely essential, the recovery by itself can only be counted on to reduce the cyclical component of unemployment - now estimated by the Commission at only about two percentage points of the total of eleven per cent. Certainly to achieve such a reduction of unemployment by 3 million people is a first important step to reach the employment target of the White Paper. However, reducing significantly the remaining 9 % will require both turning the recovery into a long lasting investment-led growth process to create the necessary work posts, and implementing more active and efficient labour market policies to reduce possible bottleneck tensions, to help those - probably at present close to half of the 9 % in the EU as a whole - who may otherwise be unable to fill the posts being created and to increase the employment content of growth.

4. The immediate threats to recovery come from currency instability, which affects the proper functioning of the internal market and which could lead to a resurgence of inflationary pressures in some countries, and from the high level of real interest rates which jeopardise investment and employment creation. European Governments and Central Banks have to address these problems collectively within the EMS and in the context of progress towards EMU. With inflation rates at historically low levels throughout the industrial world, reinforcing the credibility of monetary and budgetary policies together with better monetary co-operation at the European level would allow for the reduction of interest rates and would help the recovery both directly and indirectly since it would also help to achieve more stable exchange rates and more convergence in Europe. The EMU process requires this improved convergence, which would in turn help significantly to lift many of the constraints that exchange rate instability now imposes on participating countries, and would also contribute to consolidating the sustainable growth process. This approach must be complemented at international level through better co-operation; progress on this is rightly high on the agenda of the IMF and of this summer's G7 Summit in Halifax, Canada. Within this international framework, it is important that the European countries should speak with a single voice.

5. In the medium term, the major internal obstacle to maintaining the growth and employment creation process is that capacity constraints may start emerging again in some sectors and with them the risk of a resurgence of inflation. It is therefore necessary to prevent the emergence of new inflationary tensions and to increase the growth potential of the Community through a strong expansion of capacity-expanding, job-creating, investment.

6. The Commission estimates that the EU's potential output grows at an annual rate of about 2 ¼ %. As some free capacity is available after the recession, a higher growth rate is workable in the short-run. In order to maintain a growth rate approaching 3.5 % over the next five to six years without inflationary tensions, it is necessary to raise progressively the potential growth rate of output towards 3.5 %, gradually absorbing the relatively limited degree of spare capacity which is available. According to Commission estimates this would require sustained investment growth rates approaching 7 % per year during this period. The available short-term forecasts indicate that the EU's economy - investment growth in particular - seems on the right track, and wage moderation has contributed to this. But this performance must be sustained through an appropriate policy-mix over the medium-term. Higher investment must also be balanced by higher levels of savings, the generation of sufficient profitability of investment, financial institutions and markets well-attuned to the needs of industry, and an active role for the public authorities, particularly in the case of investment in infrastructure, energy and environmental investments with long pay back periods. A real increase in private consumption would be compatible with this, though at lower rates of 2 ½ to 3 % per year, which are in any event necessary to create a climate of confidence and a satisfactory growth of final demand which private investment requires. This consumption growth would be supported by employment creation and a moderate increase of the global level of wages with respect to productivity.

7. The Social Partners are conscious that the reabsorption of high budget deficits is a basic requirement for transforming the present recovery into a durable, job-creating, growth process and to ensure that the desired progress towards EMU is achieved under sound conditions. If deficits cannot be tackled now, in a recovery, when can they be? This is essential to preserve the basic social

functions of modern states, and to regain the room for manoeuvre which has often been lost as a result of high public debt burdens. Progress which is being achieved must be maintained. The Social Partners agree that the consolidation process must take account of the different national situations and, at the European level, of the minimum of fiscal approximation necessary for the proper functioning of the single market and for the avoidance of an excessive fiscal competition between Member States. In many countries, putting a brake on expenditure increases should be preferred since there are undoubted limits to higher taxation and social charges. Budgetary consolidation must be done in ways which do not threaten the recovery process and the competitiveness of companies, and be socially balanced. If this is the case, it will be easier for the Social Partners to agree on wage policies which are compatible with price stability, investment profitability and higher employment creation. With the possibility of capacity constraints being approached as the recovery proceeds in the next two or three years, budgetary consolidation will also contribute to restraining inflationary risks, thus preventing monetary policies becoming overburdened and increasingly restrictive, with the risk of a new recession. In any case, credible budgetary consolidation is necessary to reduce interest rates and to keep them low, and to contribute positively in the medium-term, as the investment share increases, to strengthening national saving and to avoiding tensions on capital markets and external accounts.

8. The Social Partners agree also upon the need to pursue substantial structural reforms in order to promote the Union's competitiveness on the basis of a more flexible economy capable of evolving with social and technological changes in a world of free trade, as set out in the White Paper. This means in particular the completion of the unfinished elements of the internal market programme, the realisation of the Trans-European Networks, the development of the information society, the promotion of research and development, the improvement of education and training and measures to improve the development of SMEs: in short, all structural measures which aim at increasing the endogenous growth forces within the Community i.e. raising the productivity of the economy. The Social Partners are convinced that there is no necessary contradiction between productivity growth and employment creation. However three conditions must be met to ensure that the relative price mechanism of the market allows for a redistribution of productivity

gains between sectors, enabling sectors with low productivity growth to create new jobs and to maintain similar wages for similar work:

- relative prices must continue to change without artificial rigidities, and the increased competition and flexibility on all markets should help this;
- sectoral changes need to be socially acceptable, with market mechanisms being complemented by forward looking active policies and social dialogue;
- the overall macroeconomic rate of growth must be strong enough to allow for a positive balance between job creation and job destruction across sectors.

9. With regard to the necessary reform of labour markets, both as an indispensable complement to the macroeconomic component of the growth strategy, and for reaching better employment creation results and for reducing social exclusion, the Social Partners agree that change can best be achieved by partnership rather than by imposition. The contribution of labour market policies should be seen in the following broad framework:

- (i) raising the quality of human capital since it improves competitiveness, potential output and the flexibility of, and opportunities for, the workforce;
- (ii) easing the re-absorption of unemployed workers when new jobs become available; this implies:
 - for those workers readily employable, preventing the emergence of tensions on the labour market through improvement in positive flexibility and in professional and geographical mobility;

- for those trapped in the hard core of structural unemployment, special retraining and more active and efficient labour market policies which increase the employability of workers and concentrate on targeted groups hit by exclusion;
- (iii) making growth more employment-creating, though without reducing growth itself, by:
- the Social Partners examining at the appropriate levels whether employment could be promoted without endangering competitiveness through the allocation of productivity gains to contribute to innovative forms of work such as reorganisation, reduction and new patterns of working time;
 - increasing the incentives to employment by reducing non-wage labour costs, especially at the lower end of the wage and productivity scale, without harming other parts of the labour market; from a macroeconomic point of view this must be achieved in ways which do not compromise the reduction of budgetary deficits nor the competitiveness of enterprises. Reforms including, where appropriate, alternative financing sources of social protection systems are therefore required;
 - easing the development of new employment opportunities and activities linked to the service society and environmental sustainability.

10. UNICE, CEEP and the ETUC regret that their previous opinions on the macroeconomic situation and policies were not given sufficient attention by Member States, particularly since events have validated many of the points made. They remain convinced that Social Dialogue can make an important contribution to achieving the linked objectives of the White Paper. This is why the Social Partners address this opinion not only to the Commission but also to the EcoFin and Social Affairs Councils. They look forward to a meaningful reaction and further dialogue.

THE ESSEN EMPLOYMENT PROCESS

Joint Declaration of the European Social Partners to the Madrid European Council (December 1995)

The ETUC, UNICE and CEEP are committed to playing their part in making a success of the Essen process in line with the White Paper on Growth, Competitiveness and Employment which set a target of cutting unemployment in half by 2000. The Social Partners' own reviews, which are attached to this declaration, show that employers and trade unions at the national level have been actively engaged in seeking the reform and improvement of employment and labour market policies. The Social Partners' behaviour and that of their members has contributed to improving underlying economic conditions, and to creating better prospects for stability.

Much more needs to be done to overcome the structural problems of Europe, to complete the internal market, to achieve EMU, and to enlarge the Union. In accepting their responsibilities, the Social Partners expect governments and central banks to exploit any increased room for manoeuvre they have to pursue policies favourable to economic recovery, employment generation and enhanced competitiveness. Member states must stick to the clear objectives set for the development of the EU and take the often difficult but necessary decisions required to restore business and consumer confidence, without which a sustained recovery will not take place.

Accordingly, the European Social Partners are looking to the heads of state and of government in their first annual review of Essen to do three things.

First, it is essential to ensure coherence between labour market policies, and macroeconomic and competitiveness policies. This point was made in May 1995 in the Social Partners Joint Opinion on the 1995 Broad Economic Policy Guidelines. Thus, while continued efforts to strengthen labour market policies are a necessary condition for achieving the White Paper and Essen employment objectives, they will not be sufficient, or effective, if the economic recovery falters and is allowed to weaken. The current recovery must be turned into a sustained and job-creating growth process which requires the pursuit of the appropriate mix of macroeconomic and competitiveness policies necessary in particular to sustain higher rates of investment.

Secondly, the Madrid European Council should draw its conclusions from the national experiences in the follow-up to the 5 Essen points. From their own reviews, the Social Partners have the following observations:

(a) Improving vocational training is a top priority for the Social Partners throughout the EU, and where they have been able to play an active role this has contributed to making a success of reforms. Essen correctly identified the importance of qualifications and of life-long learning. Attention must also be devoted to improving access, investment, quality, and the targeting of vocational training to meet the needs of companies and the aspirations of employees. Reforms, where required, should vigorously be sought by the Social Partners at the national level, in cooperation with governments.

(b) With regard to increasing the employment-intensiveness of growth, the Social Partners support the Essen conclusion that work organisation should be made more flexible in ways which fulfill both the wishes of employees and the requirements of competition. They are examining at the appropriate levels whether employment can be promoted, through the strengthening and allocation of productivity gains through innovative forms of work such as reorganisation, reduction and new patterns of working time without endangering competitiveness and the growth process itself.

With regard to wage policy and investment, the May 1995 Joint Opinion also stressed the importance of achieving sustained investment growth rates approaching 7% per year in order to reach employment targets. Wage moderation has been an important contributing factor to progress being made in this direction. It is also essential to create the conditions leading to profits being invested on the necessary scale. Increases in private consumption, as indicated in the May 1995 joint opinion, would help to overcome the problems of confidence - both of business and consumers - which still remain.

The Social Partners are convinced of the importance of regional and local employment initiatives. They believe that where the local authorities and the Social Partners play an active role this produces positive results.

(c) The Social Partners agree on increasing incentives to employment by reducing non-wage labour costs, particularly to facilitate the recruitment of the unemployed, without harming other parts of the labour market. From a macroeconomic point of view this must be achieved in ways which compromise neither the reduction of budgetary deficits, nor the competitiveness of enterprises. Reforms of the welfare state are required including, where it is deemed appropriate to reduce non-wage labour costs, alternative financing sources for social protection systems. The effectiveness of these policies in terms of creating jobs should be kept under review.

(d) The Social Partners support the efforts which are being made to increase the effectiveness of employment policies in order to get people back into work. In the development of forward-looking employment policies at the appropriate levels, an important element is increased collaboration between employment services, the Social Partners and vocational training bodies, particularly with regard to vacancies and applications for employment.

(e) Essen mentioned young people, the long term unemployed, women, and older employees: disabled workers and ethnic minorities also have special needs. The Social Partners agree that labour market policies in general should involve some targeting, but it is also important that coherence and effectiveness is ensured. The Social Partners are ready to play their role.

Thirdly, the Social Partners consider the Essen procedures to be an important innovation, and that the European Council in Madrid should authorise a first review to ensure effective implementation, to measure progress, and to assess the need for further action. It is in particular important that the Economic and Monetary Union go together with an active employment strategy: the economic guidelines exercise and the Essen employment process should be seen as a whole. This will help reinforce policy coherence and thereby help business and consumer confidence. The Social Partners will continue and intensify their work at national and European levels, and look to the public authorities to do the same and to closely involve the Social Partners in their efforts at the appropriate levels. In the context of the Intergovernmental Conference, where growth, competitiveness and employment should be an issue, the Social Partners will discuss in the Social Dialogue how they should respond.

European Council

Madrid, 15 and 16 December 1995

Presidency Conclusions

Madrid European Council (15 and 16 December 1995): Presidency Conclusions

C. EMPLOYMENT

1. The European Council reaffirms that the fight against unemployment and for equal opportunities is the priority task of the Community and its Member States.

The medium-term strategy outlined in Essen and confirmed at Cannes provides the appropriate framework for developing the measures agreed. These measures have already begun to apply in the Member States with generally positive results, thanks mainly to an appropriate combination of structural measures and policies favouring sustained economic growth.

The European Council welcomes the Commission's interim report and assessment of the mutually beneficial effects of greater coordination of the Union's economic and structural policies. It requests the Commission to submit its final report at the European Council meeting in December 1996.

2. The European Council is pleased with the way in which the procedure for monitoring employment provided for in Essen, based on a strategy of cooperation between all those involved in this common endeavour, has been formulated and put into practice for the first time:

- the Member States have translated the Essen recommendations into multiannual employment programmes incorporating innovative measures which have already started to bear fruit and which are the appropriate instrument for transposing the recommendations to be adopted by the Council in the socio-economic area;
- the job-creation strategy in the European Union will receive a new impetus with the approval by the European Council of the joint report submitted by the Council (ECOFIN and Labour and Social Affairs) and the Commission (Annex 2). For the first time a convergence of views has been achieved on the approach to be followed to ensure that the current economic recovery is accompanied by a more thoroughgoing improvement in the employment situation.

The approval of that report fulfils the Essen instructions on monitoring employment and consolidates the employment policies agreed at previous European Council meetings. With the cooperation of all parties involved, new steps are being taken not only towards identifying the obstacles in the way of reducing unemployment but above all in connection with the macro-economic and structural aspects which substantially favour the creation of new jobs;

- it welcomes the fact that, in their Declaration from the Social Dialogue Summit in Florence, the social partners at European level arrived at a common criterion for measures to promote employment. Similarly, it is pleased to note the broad degree of convergence between this agreement by the social partners and the criteria in the single report;

- within this same line of involvement of the various players and institutions operating within the European Union, the European Council has examined with great interest the European Parliament Resolution on employment, observing here too the broad convergence between that Resolution and the single report.

3. On the basis of the recommendations in the single report, the European Council urges Member States to regard as priorities the following spheres of action in their multiannual employment programmes:

- stepping up training programmes, especially for the unemployed;
- rendering business strategies more flexible in areas such as the organization of work and of working time;
- ensuring a pattern of non-wage labour costs appropriate to unemployment-reducing objectives;
- continuing the current wage restraint by linking it to productivity, as an essential element in promoting intensive use of manpower,
- obtaining the maximum level of efficiency in social protection systems so that, while maintaining where possible the level attained, they never act as a disincentive to seeking work;
- pressing for greater conversion of passive policies to protect the unemployed into active job-creation measures;
- substantially improving the machinery for information between those providing and those seeking employment;
- promoting local employment initiatives.

The above measures will be applied with particular emphasis on those categories requiring special attention, such as young people seeking their first job, the long-term unemployed and unemployed women.

As regards measures on wage restraint, it recalls that such action falls within the social partners' own sphere. The development of social security contributions points to the need to act within a margin for manoeuvre which will preserve the financial stability of social protection systems.

The degree of application of the multiannual employment programmes and the recommendations adopted in Madrid will have to be reviewed at the European Council meeting in December 1996, with the aim of reinforcing the employment strategy and adopting further recommendations.

4. The European Council reiterates the need to ensure economic growth which generates more employment and urges Member States to persevere with policies in line with the broad

economic policy guidelines, backing them up with the structural reforms already initiated or awaiting application, with the aim of eliminating existing rigidities and achieving better operation of labour markets in the goods and services sectors.

Maximum advantage must be taken of the opportunity offered by the current phase of economic expansion to achieve additional progress in the structural reforms required.

5. The European Council emphasizes lastly the important job-creation role played by internal policies, especially the internal market, environment policy, SMEs and the trans-European networks.

6. Members of the European Council that participate in the Agreement annexed to the social protocol to the Treaty note with satisfaction that for the first time an agreement has been reached with the social partners in the framework of that Agreement, in connection with the draft Directive on combining working and family life (parental leave). It hopes this agreement will open the way for subsequent agreements in other important social and employment areas.

7. Lastly, in order to ensure the continued success of this strategy, it requests the Council (ECOFIN and Labour and Social Affairs) and the Commission to monitor the application of those programmes continuously and to submit a further joint annual report for its meeting in December 1996. So as to facilitate practical application of the employment monitoring procedure decided on in Essen, it is necessary to establish as soon as possible the mechanisms envisaged in the joint report (stable structure and common indicators). The European Council reaffirms its determination to continue to give the objective of job creation maximum priority in the European Union in the years to come.

2 April 1996



Conclusions of the Chair

Labor, Economics, Commerce and Finance Ministers from the G7 countries and the President and Commissioners of the European Union met in Lille on April 1 and 2, 1996 at the invitation of the French Chair.

Building upon the momentum created in Detroit, this Jobs Conference gave us a golden opportunity to enhance our collective thinking about a set of questions - how to enhance growth, how to create a better framework for more jobs, how best to fight against social exclusion - which are at the heart of the concerns of the G7 countries.

The discussions of the past two days were very fruitful. They reinforced our conviction that to restore confidence and lay the groundwork for a healthy recovery, it was crucial to reach a consensus on the challenges facing our economies.

The development of a more global economy and advances in information technology are an engine for new economic opportunity and prosperity, but may also be seen as a source of dislocation and insecurity. Our challenge is not to slow the pace of change and erect barriers, but rather to encourage economic institutions and policies that ensure all our citizens can seize the opportunities to compete in the global economy and to master the technologies of the new century.

We do not need to choose between worsening unemployment and widening income inequality. We must achieve both economic growth and a widely shared prosperity. We recognize the crucial role of the private sector for achieving these goals. Although there is no single solution that fits all our various situations, during this Conference we learned from each other's experiences. Meeting these challenges cannot be achieved by labor policies alone - the robustness of the employment environment reflects the interaction of labor market policies with macroeconomic policies, structural policies, technology policies, trade policies, education and training policies, and welfare policies.



To meet these challenges, we will have to :

- create the conditions for sustainable employment growth through appropriate macro-economic policies ;
- ensure well-functioning markets, including labor markets ;
- encourage the emergence of the jobs of the future by improving the adaptability of our economies and making them more responsive to change ;
- make sure that growth benefits everyone, especially the most vulnerable workers, whose situation has often deteriorated over the past fifteen years.

This enterprise will take time and effort. In the process, far-reaching reforms will often be needed. These reforms will be all the more effective if they are able to receive strong and widespread support, in a climate of renewed partnership, confidence and hope, and if they are carried out with the active involvement of employers and workers.

Strong growth will undoubtedly help to reduce unemployment. But much will still remain to be done to address the structural problems which impede job creation and income growth.

A Creating the conditions for sustainable growth and strong job creation.

1. Vigorous, sustainable and non-inflationary growth can only be achieved in the context of healthy public finances. The G7 countries must therefore endeavor to control public spending more effectively in order to reduce their deficits. Cuts to Government expenditures should be carried out in the most efficient way, taking into account policy priorities, especially those that improve employment prospects. Reducing deficits will help to create a more favorable climate for private investment and income growth, against a background of moderate interest rates.

2. We reaffirmed our commitment to pursuing open trading policies because of their beneficial contribution to increased prosperity, employment and higher wage jobs. To that end, we call on trade ministers to maintain the momentum of trade liberalization through the World Trade Organization (WTO) at the WTO Ministerial Conference in Singapore in December. We also noted the importance of enhancing core labor standards around the world, and examining the links between these standards and international trade in appropriate fora. Therefore we await with interest the completion of the studies currently underway at the OECD and ILO on the social dimensions of international trade.



B Fostering the emergence of the jobs of the future.

3. As experience over the past fifty years has shown, the introduction and diffusion of new technologies is good for growth and employment. Governments can play an important role in facilitating innovation in the private sector and the dissemination of new technologies. With this in mind, we wish to draw attention to the following points :

- nowadays, the greatest number of quality jobs is being created in the dynamic, innovative sectors, particularly in the information technologies ;
- moreover, firms that use advanced technologies grow, hire, and pay more and survive longer than other firms ;
- efforts should be made to encourage the dissemination of technological innovations, notably in the direction of small and medium-sized enterprises (SMEs), which create large numbers of jobs.

4. We fully realize that fostering entrepreneurship can play a crucial role in helping to create plentiful, quality jobs. Within this context, special attention should be paid to SMEs and to service activities :

- if we are to realize the job-creating potential of our economics, it is extremely important to modernize our regulatory framework, especially in the markets for goods and services. Wherever the need arises, adjustments should be made to certain regulations if they are no longer appropriate to present circumstances. The work of the Secretariat of the OECD on the modernization of the regulatory framework and its economic consequences will be extremely useful in framing future policies. This work should be pursued actively ;
- we are fully aware of the value of service activities, which create many good jobs, ranging from environmental protection to jobs associated with the needs of an aging population, of households, or the dissemination of information and communications ;



- particularly in regions where unemployment is high, favorable business conditions, better cooperation between relevant segments of society, and the development of human resources, at the entrepreneurial and labor level, are needed in order to attract investment, foster the role of SMEs, and create jobs ;
- the globalization of trade and the expansion of the new information technologies must not leave SMEs behind. That is why we welcome the project entitled "A global market place for SMEs" which originated in the Brussels Conference on the Information Society. In order to help SMEs invest in new markets and innovative activities, their access to capital, and especially venture capital, must be greatly improved. This applies to the European countries in particular.

5. Investing in people is just as vital as investing in capital. The most successful economics and societies will be those that focus on the long term, by investing vigorously in training for their workers. With that in mind :

- it is essential to provide a framework in which young people can acquire a sound basic education and familiarity with the workplace. Everything should be done to ensure the smoothest possible transition from school to work ;
- each worker should have access to vocational training and upward mobility, in order to be able to adapt to economic and technological changes. For each individual worker, vocational training is a lifelong enterprise and should not be confined exclusively to people's youth ;
- vocational training is a key factor in preventing loss of employment and ensuring a rapid return to employment.

6. Technical change and the need for better training both call for new forms of work organization, in order to reconcile the needs of employers with the new aspirations of employees, while at the same time creating new jobs. On these issues, progress will best be achieved through cooperation between workers and employers .



C Preventing and fighting social exclusion

7. Despite the favorable dynamics created by technological progress and efforts to invest in people, some workers find it difficult to adapt. They run the risk of being left aside. To improve their working and social conditions, and to prevent and fight against their exclusion from society, we must address insecurity about employment opportunities, pay, benefits and living conditions.

In certain G7 countries, young people are experiencing great difficulty in entering the labor market, with highly damaging consequences for their subsequent working life. They deserve help and very special attention in order to facilitate their entry into working life.

For other reasons, some workers who are well advanced in professional life are confronted with serious problems (e.g. reduced employability, difficulties in adapting to new technologies) which lead them to leave the workplace prematurely. We should do our best to end this waste of human resources at the very time when our societies are aging. More generally, we seek to identify policies that promote the security of "employability" over individuals' working lifetimes and facilitate job transitions.

8. Some very practical ideas have been put forward during this Conference that will help us achieve both high levels of employment and widely shared prosperity. Their application needs to be adapted to the institutions of the different G7 countries.

- Tax and social systems must be adapted to "make work pay", particularly for the least well-off.
- An active approach is of particular importance for the least well-paid workers and the long-term unemployed. Wherever necessary, labor market policies should aim at preventing long-term unemployment and integrating young job-seekers into the regular labor market, thereby showing commitment to the most vulnerable.
- In those European countries where high indirect labor costs have contributed to unemployment among the unskilled, social charges bearing on unskilled labor should be lowered where appropriate.



- The success of policies in favor of the most vulnerable workers also depends on improving the effectiveness of public employment agencies. It is particularly important to establish close links among the agencies responsible for finding work and those responsible for paying unemployment benefits, and to organize more systematic contacts between the public employment agencies of the G7 countries. (e.g., organizing working seminars on subjects of common interest).
- More active efforts should be made to enable the least-skilled workers to gain access to vocational training.

All these reforms could make a real difference, but they will call for a high degree of perseverance and effort on the part of G7 countries. We commit ourselves to continue our close cooperation. G7 Ministers could meet as appropriate to address these issues at the request of the Heads of State and Government.

The OECD and the ILO have made a valuable contribution to our deliberations at this Conference, and we look forward to their continued assistance and advice. In particular, we welcome the excellent report on Technology, Productivity and Job Creation, prepared by the OECD, as requested at the Detroit Job Conference in 1994, and look to appropriate follow-up work. The ILO and the OECD can further our understanding in their respective areas of excellence. We recommend that further work be undertaken on the interaction between macro-economic policies and structural reforms, and on "best practices" in technology and innovation, human capital investment, high performance work places, and policies to protect the most vulnerable groups.

Ministers welcome the Japanese Government's offer to host a meeting of experts on employment which could focus on youth employment, the problem of aging workers and lifelong learning.

The Chair of the Conference will forward these conclusions to leaders for the Lyon Summit.

