
Issues for Debate : Employment and the
Labour Market in the 1990s

COMMISSION WORKING DOCUMENT

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Introduction

Since the first oil shock, unemployment in the Community has been on a rising trend, falling back during periods of economic growth, but never by as much as it rose, such that it is now four to five times higher than it was in the 1960s. Furthermore, the prospects for growth in the Community in the years to come, and more generally the international environment, are unlikely in themselves to offer an immediate solution to the problem of unemployment which threatens to be a central problem in the 1990s.

Apart from the immediate macro-economic environment, it therefore seems appropriate to look at the functioning of the labour market and employment policy and to ask what contribution they can make to combatting this steady rise in unemployment.

Growth and employment trends

Employment in the Community grew rapidly in the period 1985–1990 due also to progress towards the completion of the Internal Market. During that period, over 9 million net additional jobs were created, mainly in services, offsetting significant sectoral changes. However, unemployment fell by much less over the same period as the labour force continued to grow. Since then, the slowdown in the growth of output has led to a decline in the rate of growth of employment and unemployment has risen again.

The present slowdown must be considered mainly as a cyclical reaction after a protracted period of continuous growth from 1983 to 1990. It has been triggered partly by recessionary developments outside the Community. External competitive pressures have increased, fuelled by a devaluation of the US dollar which has contributed to slight losses of global market shares by the Community. Internally the acceleration of inflation from 1988 to 1991, of wage costs in 1990/1991 and of budget

deficits since 1990 have called for a more restrictive stance of monetary policy and have underlined the necessity to strive for fiscal consolidation in order to reach sustainable budget positions. The recent unrest in the exchange markets has added to the prevailing uncertainties and the lack of business and consumer confidence which have to be tackled by measures aimed at improving stability and convergence.

In the short-term, no cyclical upswing can be expected. At present, it is unlikely that a recovery of the Community economy will materialize before the second half of 1993. This implies a further rise in the rate of unemployment.

In the medium term, however, the Community has the potential for a return to a better growth performance. Compared with the situation before the last upswing, economic fundamentals and especially business profitability have improved. Inflation has been reduced considerably. The completion of the Internal Market should continue to exert a positive influence beyond the impact it has already had by anticipations in the second half of the 1980s. Prospects for an improvement in the Community's medium-term growth performance would be further enhanced by a successful conclusion of the GATT negotiations and a global cyclical upswing. The ratification of the Treaty on European Union and the opening of enlargement negotiations would also boost economic performance next year. A medium term growth rate of about 3% seems attainable in the years after 1993. Since the threshold at which employment starts to grow is estimated at about 2% of growth of Community GDP, unemployment will decline only gradually. Some 10 million additional jobs will be needed until the end of the century if the Community is to reduce the unemployment rate to around 7%.

At the same time, the Community also faces challenges in terms of cohesion between Member States and between social groups within Member States, in spite of the measures taken by the Member States and with the support of the Structural Funds.

While substantial overall progress has been made in achieving greater convergence in GDP per head between richer and poorer areas of the Community, some parts of the Community – Greece and the South of Italy, especially – showed growth rates below the Community average. Furthermore, the above average growth in output achieved in a number of regions – in Spain and Ireland particularly – was not translated into sufficient rates of employment creation. Unemployment, and under-employment, in these regions remains particularly high.

Labour Market Trends

Since 1990, the rate of economic growth has fallen to below 2% in the Community, job losses through falling demand for labour and structural change have accelerated,

While there were many new entrants to the labour market, especially women, others could not get into (or back into) employment, and overall levels of labour market participation, although increasing, remained low. While they have increased in recent years, activity rates of women (15–59 age group) are below 60% – much less than in other industrialised regions of the world.

Relative to other industrialised countries, including some newly industrialised ones, skill levels in many parts of the Community are low – due to under-investment, or badly orientated investment, in education and training. Despite recent improvements, shortages of particular skills persist, even at times of high unemployment, with consequent effects on competitiveness.

The social incidence of unemployment remains uneven. It particularly affects certain groups of people – notably women (whose average unemployment rate across the Community is almost twice that of men), older unskilled workers, and young people (whose rates are twice the average). Long-term unemployment remains stubbornly high, with nearly half the unemployed out of work for more than one year. Moreover, some 30% of the long-term unemployed have never worked at all.

The continuing segmentation of the Community's labour market and the effective exclusion of significant numbers of people from employment threaten social cohesion. Too many people in too many parts of the Community find it difficult, if not impossible, to find suitable jobs or are obliged to accept very low levels of pay.

The problem of coping with employment difficulties resulting from reduced economic growth is compounded by the performance of the Community's labour markets — often considered insufficiently adaptable, discouraging recruitment, and poorly 'managed' — posing further difficulties for the matching of labour demand and supply.

Progress in modernising industrial relations remains slow. Cooperation between management and the work force, essential for the efficient implementation of improved working methods and production innovations, is often lacking. Technological change and new ways of organising work create a demand for a more highly educated, trained, qualified and motivated workforce which is informed about, and involved in, the activities of the organisation in which they work.

Labour market prospects partly reflect demographic movements. However, neither the Community's overall population, nor its population of working age (16–64), is likely to increase much, if at all, over the next 15–20 years. On the other hand, the active population is likely to increase and the average age of those actually working is expected to continue to decline, as in recent years, because of the growth in numbers of new female entrants to the labour market.

These various developments form the background to the debate on the functioning of the labour market and the role of employment policy. A series of questions which could provide the basis for this debate are set out below.

Issues for Debate

In the case of a number of the issues which need to be discussed, Member States and the European Community have already started to tackle the problems while developing action programmes (Sources of information on these issues are indicated in Annex 1). Nevertheless, certain fundamental questions need to be addressed.

In addition to general economic and labour market difficulties — which have now been with us for some time — and the pressures on the Community's labour markets to adapt and be competitive as a result of the continuing globalisation of production, prospective economic developments pose new problems and challenges.

Any detailed debate on the functioning of the labour market must take into account a number of factors which, while they are not dealt with in this document, nevertheless form part of the background.

Firstly, there is the need to tackle any risks of disequilibrium with regard to real economic performance across different parts of the Community as the Community moves towards monetary union, with the support of the Community's structural support policies including the cohesion fund.

Secondly, the final removal of inter-Community restrictions on trade and business location are likely to affect employment prospects throughout the Community — in areas hosting advanced industrial sectors and certain service activities, as well as those with high concentrations of traditional industries and agriculture.

Thirdly, there are uncertainties about how the Community's external environment will affect trade, competition and employment in the coming years. These uncertainties concern particularly the developments in neighbouring countries of Eastern and Central Europe as well as neighbouring countries to South. They are also linked to the competitive position of the Community relative to the United States and Japan, as well as to potential enlargement of the Community.

Fourthly, account must also be taken of new concerns, such as the environment, for example, which both imposes constraints and opens up productive possibilities — and therefore employment creation and access to jobs.

In the context of a relatively unsatisfactory macro-economic situation, and a difficult international environment, a policy for creating employment also needs to include the maintenance of the competitiveness of European firms on world markets. It is essential to examine closely the relationship between employment and labour and capital productivity, including the effects of the incidence of taxation and non-wage labour costs. A useful point of comparison should involve an examination of this relationship in countries like the US and Japan. In this respect, the difficulty lies in achieving balance between basic employment objectives and improving economic efficiency, all the more so in a context where budgetary and financial constraints, in the short term necessarily influence decisions.

The issues for debate, identified below, are limited to the functioning of the labour market. Furthermore, they represent an initial view of a complex developing situation without indicating any *a priori* order of priority between them. Certain of these questions relate specifically to structural factors (Questions 1, 2, 3, 4, and 7); others relate to the development and operation of the labour market (questions 5, 6, 8 and 9); the last question (Question 10) directly relates to the contribution of the Social Partners in the light of the common opinion of July 1992.

1. Can the rate of employment growth be improved even if economic growth remains low?

Employment growth between 1985 and 1990 was the result of both stronger economic growth and a more labour-intensive pattern of growth than in the past — in effect, employment began to grow when economic growth exceeded 1.5% or 2%. The issue of how to translate economic growth into even higher rates of employment growth needs to be considered, provided it does not adversely affect competitiveness. A balance must be maintained between growth of the high productivity, but low employment intensity manufacturing sectors and growth of the low productivity, but high employment intensity service sectors. The relationship between employment, investment, productivity and labour and capital costs needs to be considered, including the effects of the incidence of taxation and non-wage labour costs, in respect of employment creation and recruitment.

Three sources of employment creation need to be examined. Firstly, promoting the creation of new business, particularly small and medium-sized enterprises, through tax and social incentives as well as the regulatory framework. Secondly, consideration also needs to be given to the fact that while European industries need more and more skilled workers who cannot always be found on the labour market, there is continuing demand for less skilled workers in a wide range of activities. A further decoupling of operating and working time could be helpful. Thirdly, alternative forms of organising production, such as in cooperatives or non-profit-making enterprises should be looked at. In many cases the existing demand for such work is not met officially, mainly because of the difference between the net wage of the worker and the wage cost to the employer. Demand may cover a whole range of service activities, particularly household and community services, which may well increase in future (more women working, more

old people, protection of the environment etc.). This may involve various alternative forms of "production", such as cooperatives, non-profit-making enterprises or local employment initiatives. Indeed, different forms of production can exist, even within the context of the market economy. Similarly, within the non-market sector, new activities, which satisfy needs not yet being met, or contribute to the revitalisation of local economies, contain significant potential for job creation and social integration. It should be noted, although it goes beyond the scope of this paper, that each of the three sources of employment growth would have budgetary implications for the authorities, either national or local, who wished to have recourse to them, and which would have to be taken into account.

2. What can the Community do to improve the level of education/training provision, in the light of the respective responsibilities of national and regional authorities and the Social Partners?

Improvement and strengthening of education and training, both initial and continuing, are crucial elements in the fight against unemployment, particularly long-term unemployment, for creating durable jobs, in achieving greater flexibility of the labour market and increasing the competitiveness of European firms. While improvements are being made, with Community support, shortcomings in education and training are among the principal obstacles to improving economic performance and to creating employment opportunities in many parts of the Community. Under-investment, rigid structures and low standards in education and training are leading to too many school drop-outs and unacceptable levels of illiteracy. This failure in basic education, combined with the inappropriateness of some training programmes to labour market needs, is one of the root causes of continuing skill shortages and labour market mismatch at a time of high and rising unemployment. Greater, and more relevant, investment in training could be encouraged in order to address general weaknesses such as educational failure and illiteracy as well as particular skill shortages. More could be done to strengthen the link between training provision and employers needs; to improve the entry of young people into employment; to promote life-time, continuous, training; and to ensure comparability in qualifications across the Community. Closer Community cooperation in order to raise minimum training levels in the Member States could be considered. Continuing training pro-

grammes, both within and outside enterprises, to ensure the necessary adaptation of workers to changing technologies and market conditions will be an essential element in this effort. Both governments and firms tend to reduce expenditure on training in the recession. Ways could be sought to overcome this tendency, which leaves skill shortages when employment picks up again.

3. What can be done to cope with the employment effects of structural changes on local economies and labour markets?

Major economic changes are continuing to affect the Community's labour markets — the decline in agricultural employment continues, the number of jobs is falling in many industries, the content of the remaining jobs is changing, and the service sector continues to demand new skills. Opportunities to create new employment to match the growing needs for social support need to be supported. More could be done to anticipate changes and to encourage effective industry and local responses. Fuller cooperation between all those involved in the local labour market and local economy, and a strengthening of the capacity of areas to adjust to change, could be encouraged.

4. What can be done to assist the catching up of the Community's less developed areas as regards employment?

Despite the progress made in the pursuit of greater cohesion, the employment needs of the less developed regions are growing since current low rates of labour market activity means that the potential for expansion is considerable. The Community is considering how best to help Member States and regions concerned to address non-economic as well as economic obstacles to employment growth. A more rapid and effective transfer of 'know-how' and a closer monitoring of progress could also be considered.

5. What can be done to improve the workings of the labour market so as to create more jobs and improve efficiency?

Actions to improve labour market adaptability have been actively pursued by the Member States. Nevertheless, labour markets are at risk of becoming two-tier systems with very different levels of skills, wages, job security and social protection. The labour market needs to be more integrated and dynamic in order to increase efficiency and provide greater opportunities. The public

employment services have an important role to play in these respects. The factors which would encourage employers to create more jobs need to be identified, and more done to encourage entrepreneurship. There is an important role for training in overcoming skill shortages and ensuring that the workforce can adapt to changing needs.

6. How can Member States and the Community use financial and other support for the unemployed more effectively?

Long-term unemployment has become a structural feature of the labour market in practically all Member States despite extensive government action and the substantial support of the European Social Funds. Evaluation suggests that more could be achieved, even within budget limits, if actions were better geared to the needs of individuals and local labour markets. Apart from more and better training, counselling could be used to better effect and local community-based initiatives and 'half-way-house' workplaces could play a bigger part in providing a route back into work for those currently excluded from the labour market.

7. How can the Community ensure that greater labour mobility — through free movement, better information and more transportable social security arrangements — contributes to relieving pressures within the Community labour markets?

Labour mobility between Member States is limited. On average, only 4% of the workforce of Member States is non-national. Something over half non-nationals come from outside the Community. Large scale movements of workers out of less developed regions no longer occur and an increasing part of inter-country migration concerns professional and managerial workers. Some Border areas are also developing common labour markets for all types of workers. In addition to completing the implementation of free movement legislation, the Member States could consider what more can be done to extend the right to work throughout the Community — for example, by taking into account matters such as complementary occupational pensions.

8. In what ways could reduced working hours and a more general sharing of available work contribute to combating unemployment?

While there has been a growth in the availability of part-time work in some parts of the Community, and some overall reduction in negotiated hours of work, in most cases this has not been on a scale sufficient to make a significant contribution to tackling current labour market difficulties. More could be done to identify the possibilities for, and conditions of, more widespread reorganisation and reduction of working time. Particular attention needs to be given to ensuring that this contributes to labour market flexibility, and that it does not involve increases in labour costs.

9. What can be done to improve the quality and durability of jobs in ways which can enhance Community competitiveness?

With persistent unemployment, many people have become effectively excluded from the labour market. Many others have been able to enter, but only into the more precarious jobs, with no career, little or no job security, and little prospect of any improvement through training. While such jobs meet certain needs, they have become so widespread as to put seriously into question the Community's commitment to a high wage, high productivity, high investment economy. Possible solutions to these dilemmas should be explored with a view to simultaneously raising the value-added of jobs, maintaining flexibility in companies, continuing to provide access to the labour market for as large a population of people as possible.

10. How can we ensure the full involvement of the Social Partners in facing the challenges posed by rising unemployment and insufficient employment growth?

The Social Partners have reached agreement at Community level on a series of economic and labour market issues including training and new technology. These agreements need to be translated into actions at all levels. The Social Partners could be encouraged to support the achievement of a more employment-intensive pattern of output. They could also be encouraged to become more actively involved in employment development at the local level.

Conclusions

In the face of rising unemployment, this paper seeks to launch a detailed examination of the functioning of the labour market and the role of employment policy in creating employment and combatting unemployment.

This examination and the wide-ranging debate which should follow must eventually involve all those concerned at the different levels. It must take into account the division of responsibility and the degree of cooperation between the different authorities concerned — Community, national, regional and local — as well as the Social Partners.

From this debate and the answers given to the questions set out above, which are expected by the end of the year, the Commission believes that it should be possible to identify the key objectives and priority actions, and the appropriate means for tackling the problems effectively while at the same time reinforcing the respective roles of the Member States, the Community and the Social Partners, and encouraging cooperation and partnership.

ANNEX I

Sources of Information

Most of issues raised in document V/1292/92 have been the subject of detailed analyses by the Commission services in recent years. The results of such research have been published in documents from various DGs, notably DG II, DG III, DG V, DG XVI, DG XXIII.

Specific sources include :

Question 1

- Annual Economic Report 1989
- Employment in Europe 1989 [COM(89)399, Ch. 4] and subsequent Reports (references see below)

Question 2

- Commission Memorandum on Vocational Training in the European Community in the 1990s [COM(91)397]
- Directive 92/51/EEC on a second general system for the recognition of professional education and training which complements Directive 89/48/EEC [OJ L 209, 24.7.1992]
- Joint statement by social partners (European Social Dialogue - Documentary Series - Joint Opinions)

Question 3

- Employment in Europe 1991 [COM(91)248, Ch. 5 and 6]
- Employment in Europe 1992 [COM(92)354, Ch. 4]
- Reports and publications of the Local Employment Development Action Programme (LEDA)

Question 4

- Report on the Regions of the Community 1990 [COM(90)609]
- Employment in Europe 1991 [COM(91)248, Ch. 4]

Question 5

- Employment in Europe reports
- Labour market flexibility reports - Economic Policy Committee

Question 6

- Employment in Europe 1990 [COM(90)290, Ch. 9], 1991 [COM(91)248, Ch. 3], and 1992 [COM(92)354, Ch. 8]
- Employment Observatory - inforMISEP Quarterly Newsletters on Employment Policies

Question 7

- Employment in Europe 1989 [COM(89)399, Ch. 14]
- Proposal for Regulation amending part II of Regulation EEC N° 1612/68 on freedom of movement for workers within the Community [OJ C107, 28.4.1992]

Question 8

- Research undertaken in the context of the development of the Social Action Programme.

Question 9

- Employment in Europe 1989 [COM(89)399, Ch. 6]
- Research undertaken in the context of the development of the Social Action Programme.

Question 10

- Joint statements by social partners on training and on new technology, joint statement by the European Secretariats of UNICE, CEEP and ETUC [European Social Dialogue - Documentary Series - Joint Opinions]
- Conclusions of Standing Committee on Employment (in particular, 38th-43rd sessions held on 10.11.1989, 8.5.1990, 30.10.1990, 30.5.1991, 7.11.1991, 14.5.1992)

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ANNEX 2

Community instruments and activities favouring the mobility
of workers within an european labour market

1. Right of residence, right of circulation

- Council Decision of 15 October 1968 applying Articles 48 and 49 of the Treaty to the French overseas departments (68/359/EEC)⁽¹⁾
- Regulation (EEC) N° 1612/68 of the Council of 15 October 1968 on freedom of movement for workers within the Community (1)
- Council Directive N° 68/360/EEC of 15 October 1968 on the abolition of restrictions on movement and residence within the Community for workers of Member States and their families (1)
- Council Directive N° 64/221/EEC of 25 February 1964 on the co-ordination of special measures concerning the movement and residence of foreign nationals which are justified on grounds of public policy, public security or public health⁽²⁾
- Regulation (EEC) N° 1251/70 of the Commission of 29 June 1970 on the right of workers to remain in the territory of a Member State after having been employed in that State⁽³⁾
- Council Directive N° 72/194/EEC of 18 May 1972 extending to workers exercising the right to remain in the territory of a Member State after having been employed in that State the scope of the directive of 25 February 1964 on coordination of special measures concerning the movement and residence of foreign nationals which are justified on grounds of public policy, public security or public health⁽⁴⁾
- Council Regulation (EEC) N° 312/76 of 9 February 1976 amending the provisions relating to the trade union rights of workers contained in Regulation (EEC) N° 1612/68 on freedom of movement for workers within the Community⁽⁵⁾

(1) OJ N° L 257, 19.10.1968
(2) OJ N° 56, 4.4.1964
(3) OJ N° L 142, 30.6.1970
(4) OJ N° L 121, 26.5.1972
(5) OJ N° L 39, 14.2.1976

- Decision of 28 February 1972 of the Representatives of the Governments of the Member States of the European Coal and Steel Community, meeting within the Council, repealing Acts passed under Article 69 of the Treaty establishing the European Coal and Steel Community (74/494/ECSC)(6)
- Directive on freedom to take skilled employment in the field of nuclear energy(7)
- Proposal for Regulation amending part II of Regulation EEC N° 1612/68 on freedom of movement for workers within the Community(8)

2. Social security

- Council Regulation (EEC) N° 1408/71 on the application of social security schemes to employed persons, to self-employed persons and to members of their families moving within the Community(9)
- Several regulations amending Regulation (EEC) N° 1408/71 :
Regulations (EEC) N°s 2001/83(10), 2195/91(11), 1247/92(12), 1248/92 (12), 1249/92 (12).

3. Mutual recognition of diplomas

- Council Directive N° 89/48/EEC of 21 December 1988 on a general system for the recognition of professional education diplomas awarded on completion of professional education and training of at least three years duration(13)
- Directive N° 92/51/EEC on a second general system for the recognition of professional education and training which complements Directive 89/48/EEC(14)

(6) OJ N° L 269, 4.10.1974

(7) OJ N° 57, 9.7.1962

(8) OJ N° C 107, 28.4.1992

(9) OJ N° L 149, 5.7.1971

(10) OJ N° L 230, 22.8.1983

(11) OJ N° L 206, 9.7.1991

(12) OJ N° L 136, 19.5.1991

(13) OJ N° L 19, 24.1.1989

(14) OJ N° L 209, 24.7.1992

4. Actions : EURES

EURES (EUROpean Employment Services) is a new network connecting the Public Employment Services in order to facilitate worker mobility within the community.

It can be traced back to Articles 48 and 49 of the Treaty of Rome and to Council Regulation 1612, which came into force in 1968, and which was substantially modified in 1992. EURES is based on a complete overhaul of the old SEDOC network.

The general objectives and actions underlying EURES

- EURES will be a network providing information on employment and on various employment-related matters. It is for the use of individuals and firms faced with decisions involving freedom of movement within the Community.
- EURES will be managed by the public employment services in close collaboration with the EC services.
- EURES will provide information that is needed for making choices involving freedom of movement and takes account of specific features of national labour markets : detailed description of qualification requirements, recognition of diploma, working conditions, social security system, living conditions, etc.
- EURES will make use of modern technology which will allow messages to be passed quickly from one country to another in accordance with the wishes of the source country.
- EURES will allow frontier regions to exchange larger amounts of information with one another, reflecting the special needs of these regions
- EURES will be backed up by a network of more than hundred Euroadvisers who will provide individuals and firms with information and advice on matters concerning freedom of movement within the Community.
- EC-coordination facilities will be set up to publicise the system and maintain a high quality of service to its users.

Community Social Dialogue
3 July 1992.

A RENEWED COOPERATIVE GROWTH STRATEGY FOR MORE EMPLOYMENT

1. In 1986 the social partners supported the Community *cooperative growth strategy for more employment* by their joint opinion of 6 November 1986. This strategy was based, on the one hand on supply side measures, directed in particular towards improving the competitiveness of enterprises and the profitability of productive and employment-creating investment, and on the other hand on sound demand conditions in order to achieve sustainable, non-inflationary economic growth of about 3% to 3 1/2% aimed at a significant medium term reduction of unemployment. Although the required measures were not fully implemented in every Member Country, the subsequent developments aided by external factors corresponded largely to the objectives of this strategy: An employment creating growth process was generated over the period 1986 through 1989 with real GDP growing by 3.3% annually on average, allowing for more than 8 million additional jobs to be created between 1985 and 1990 and reducing the rate of unemployment from 10.8% in 1985 to 8.3% in 1990, but not fully reaching the initial target rate of 7%. Capital profitability increased strongly. Together with the increase in demand this underpinned the acceleration of total investment which grew on average by 6.4% annually in the period 1986 through 1989. Public deficits were cut back from 5.2% of GDP in 1985 to 2.8% in 1989 mainly by reduced growth of expenditures. Until 1988 inflation rates converged to low levels and wages adjusted well to this development.

2. In 1989/90 inflation accelerated and the favourable growth trend was interrupted in 1991/92 leading to a quasi-stagnation in employment. Thus the rate of unemployment is expected to rise to 9.7% in 1993. These developments are a matter of great concern and have created less supportive conditions for the achievement of the major Community objectives. High and rising unemployment has serious negative economic, social and possibly political consequences and conflicts with the objectives of Article 2 of the Treaty.

3. Furthermore, the Treaty on European Union requires significant progress in *the downward convergence of both budget deficits and inflation rates* to low levels to ensure a smooth transition to the final stage of Economic and Monetary Union. While the convergence criteria should not be interpreted mechanically, the social partners recognize that these objectives have to be realized according to credible convergence programmes to be applied from now on. However, fears have arisen regarding possible temporary negative demand effects of simultaneously implementing convergence programmes in several Member States in the present environment of sluggish economic activity. But even independently of the Maastricht agreement, these convergence efforts would be necessary as part of an overall strategy to promote a non-inflationary, lasting and employment-creating growth trend leading to a reduction in unemployment and enhancing the competitive-

ness of enterprises. The social partners are ready to contribute to these convergence efforts in the framework of a comprehensive cooperative strategy and in line with their own responsibilities. In such a context, convergence, cohesion and growth could be achieved simultaneously and would be mutually reinforcing.

4. This means that *a renewed cooperative growth strategy for more employment* which reconciles the optimal solution of the short-term problems with the medium-term objective of non-inflationary sustainable and employment-creating growth is necessary. The social partners have at present, as in 1985/86, a particular interest in the *revitalisation of the Community's internal growth dynamics*, in order to return as quickly as possible to the required growth trend. Such a strategy must be founded on the combination of *sound macro-economic policies and supportive structural policies embedded in a cooperative climate provided by social dialogue* at the national and the Community level. The desired credibility and predictability of the economic framework requires every effort to ensure that the decisions taken at Maastricht are carried out on schedule. There is no convincing alternative to the path towards European integration. The Community should remain united.

5. With regard to the crucial problem of sluggish growth in 1992 and 1993, the governments of most Member Countries are convinced that the budgetary situation leaves no scope for a fiscal boost of demand. The social partners stress that - whatever the limits on purely national action - cooperative action at the Community level would widen the margins of manoeuvre for all. Indeed a recovery would help reduce overall budgetary constraints through lower unemployment and higher tax revenues. Under the present conditions the macroeconomic strategy required to revitalize the economy should include the following:

(i) Growth has to be encouraged by a *rapid reduction of interest rates achieved by sound economic policies*. Such an outcome requires the adoption of a credible and socially acceptable budgetary consolidation in the framework of a clearly stability-oriented monetary policy; the applied policy mix should be differentiated following the situation of Member Countries but coordinated at Community level. Budgetary consolidation has to be based on range of policies including a selective deceleration in the rate of growth of public expenditures. However, existing levels of public investments should be maintained, or where possible increased, predominantly in areas complementary to private investment. This should be realized, for example, by a cost/benefit evaluation of the effectiveness of public expenditures, by an appropriately differentiated reduction of subsidies and by an efficient re-allocation of resources from the peace dividend.

(ii) The conduct of wage negotiations is under the responsibility of social partners. The more credible and socially acceptable economic policies are, the easier the social partners can *anticipate low or decreasing inflation rates in the results of their wage negotiations*. This would reduce the strain on monetary policy and contribute to the reduction also of short-term interest rates. Furthermore, wage developments have to take into account the requirements of the profitability of employment-creating investment, the competitiveness of enterprises on the world markets and the implications of full Economic and Monetary Union. The non-inflationary and sustainable growth process, thus genera-

ted, would provide the appropriate scope for real wage increases which underlines the interrelation between the European integration process and rising living standards.

(iii) The credible implementation of this macroeconomic approach would help to compensate for possible temporary negative effects on demand so that *consumer and business confidence would be restored* and interest rates could be reduced. This would create conditions for higher private investment which is closely connected to the creation of additional jobs.

6. Within this macro-economic framework, higher levels of competitiveness, growth and employment should be supported by *structural reforms at the national level* to improve the operation of markets.

(i) Reforms on the *labour market* and particularly the strengthening of training and retraining should improve its adaptability and its efficiency in order to support the creation of employment while respecting social interests. The corresponding Joint Opinions as agreed by the social partners should be taken into account*).

(ii) Enhanced *competition* in the markets for goods, services and capital serves to maintain and to strengthen the competitiveness of European enterprises on world markets and to facilitate the passing-on of high productivity gains via relative price reductions.

7. The implementation of Community policies and in particular the speedy realization of the *major Community projects* should also underpin the renewed cooperative growth strategy for more employment. This would give economic agents the required long term orientation, as a basis for the assessment of future conditions, which in turn have to be taken into account by present investment decisions.

(i) First of all, the *Single Market* has to be completed on schedule. The corresponding regulations have to be transposed without delay into national legislation. Additional benefits are to be expected from the implementation of the European Economic Area the treaty for which must be ratified without delay. The realization of these objectives will contribute greatly to enhance the competitiveness of European enterprises while at the same time facilitating the necessary development of the Social Dimension.

(ii) The Community must have the appropriate financial means to realize its commitments. Resources should be managed soundly and rigourously. The corresponding negotiations about the Delors II "package" should be decided upon without delay.

* Cf.: Joint Opinion on new technologies, work organization and adaptability of the labour market, of 10 January 1991. Joint Opinion on the creation of a European occupational and geographical mobility area and improving the operation of the labour market, of 13 February 1990. Joint Opinion on education and training, of 19 June 1990. Joint Opinion on the transition from school to adult working life, of 6 November 1990. Joint Opinion on ways facilitating the broadest possible effective access to training opportunities, of 20 December 1991.

- *Economic and social cohesion* is an essential part of the convergence process in the Community and has to be advanced vigorously. Efforts should be concentrated on the least favoured regions and countries.
- Investment in the European infrastructure in its broadest sense, especially the construction of *trans-European networks*, has to be promoted and should be accelerated for example with the contribution of Community funding.
- The efforts for investment in *human capital* at the national and enterprise level can be enhanced further by Community support and by Community projects aimed at the proliferation of new skills in connection with emerging technical, economic and social developments.
- The transnational cooperation in *research and development* can be promoted similarly.

(iii) Community action in *environmental protection* has to preserve and improve living conditions and has to take into account cost/benefit considerations and the competitiveness of enterprises. Experience has shown that environmentally related investments can also create many jobs. Measures should be advanced concretely and implemented rapidly in order to permit economic agents to assess the implications and to change production and consumption patterns accordingly.

(iv) The social partners confirm their attachment to a *free and open multilateral trade system*. For this purpose, the Uruguay Round has to be successfully concluded. The Eastern and Central European States, including the Republics of the former Soviet Union, have to be integrated into the world economy. Furthermore, their transformation into democracies and social market economies should be supported further by the Community and its Member States; other industrialised nations are invited to step up their aid to a similar order of magnitude. All this must not prejudice aid and development programmes in favour of the developing countries.

8. Close integration of the social partners in an *economic policy dialogue at all appropriate levels* has the potential to enhance the climate of mutual cooperation in the context of EMU and of a renewed Community growth strategy. At Community level, the social dialogue should include the aspects of convergence programmes, EC structural policy instruments and multilateral surveillance relevant to the social partners.

Appropriate consultations through a social dialogue or through other equivalent means at the national level would allow the social partners to make their views known to the authorities whose task is to elaborate convergence programmes for which governments take full responsibility. This would improve the social acceptability of these programmes and lead to their more efficient implementation with the active support of social partners.

The realization of such an approach would foster the success of the stability-orientation of macro-economic policy, of structural reform and of the renewed cooperative growth strategy for more employment.