

No. 36/1985
November 27, 1985

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COMMISSION OUTLINES STRATEGY TO REDUCE UNEMPLOYMENT

The European Community's economy continues to recover slowly, with a growth rate of 2.5 percent forecast for 1986. However, its dominant economic problem--unemployment--will be resolved only if the Community, its 10 member states, employers and unions develop a cooperative strategy for creating jobs, the E.C. Commission concludes in its 1985-86 annual economic report.

The Commission report proposes an outline for such an effort, calling on the parties involved to initiate action by the end of 1985. "For the present, there is no political approach in sight other than this strategy providing any prospect of significantly reducing unemployment by the end of the decade," the report states.

The Commission explains the philosophy behind its proposed "cooperative growth strategy" like this: Companies will be more inclined to carry out job-creating investment if they expect their markets to expand and be profitable. Trade unions will be more receptive to calls for wage moderation if they believe it will permit more economic growth and employment. Governments will be more ready to cut taxes if they see companies and trade unions working together to improve production capacity, and hence the tax base.

The specific proposals aim to ensure that more jobs are created for each percentage point of economic growth, with a major emphasis on moderate wage increases and support for demand. They are designed to increase the Community's average annual economic growth rate to 3.5 percent during the next few years, and to reduce its unemployment rate to 7 percent by 1990 (compared with the present level of 11.2 percent).

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The Commission's proposed strategy contains the following elements:

Wage Moderation. While E.C. wage increases have moderated in recent years, profitability is still too low to promote higher investment and employment growth. Real wages should continue to rise moderately until there is a clear and lasting fall in unemployment—a strategy that will require the particular cooperation of unions.

Support for Demand. Wage moderation alone will not create jobs. More job-creating investments are needed, which is primarily a task for business. However, governments must take it upon themselves to foster an adequate level of demand until the growth process becomes self-sustaining. Budgetary policies, therefore, should provide tax reductions and increased public investment in such areas as transportation networks and other infrastructure, environmental protection and urban renewal—with the expectation that growth and employment increases will boost government revenue.

Monetary Policy. This should reinforce the progress already made in combating Community inflation. Consumer inflation now stands at 5.2 percent and is expected to fall to 3.9 percent in 1986. E.C. member states should continue to work through the European Monetary System for a stable monetary environment, thus encouraging a higher level of economic cooperation throughout the Community. Recent steps taken to improve international monetary cooperation may create an opportunity for reducing real interest rates in the Community, which would encourage job-creating investment.

Labor Market Adaptability. Unions and businesses have the major role in this area. They should consider initiatives to reorganize working hours for greater efficiency, provide training and employment services geared to present and future labor market needs, and adapt working skills and patterns to new technologies. Governments should also evaluate the effectiveness of their employment services, and review legal regulations that may be inhibiting employers' flexibility.

Community Framework. Many actions can be taken at the Community level to promote economic activity and employment growth. Infrastructure improvements—particularly in the areas of cross-border transport, telecommunications and environmental protection—would help to unify the E.C.'s internal market, strengthen industrial competitiveness, integrate peripheral regions and stimulate new technologies. The Commission is also strongly promoting efforts to create a single market in the Community by removing national barriers to the free movement of people, goods and services. This would allow firms to expand production and exploit

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economies of scale, leading to lower prices and strengthened demand. The Community must also continue to promote technological progress, exploiting fully the continental market and the European network of research institutes and facilities.

International Environment. The Community should continue its efforts to improve the international trading and monetary systems, to promote the growth of world trade and to mitigate the debt problems of developing countries.

Timetable. The report outlines a gradual approach for implementing the Commission's proposed strategy, and suggests that governments, unions and employers examine their progress annually. It notes that economic conditions, thus the "room for maneuver," vary among the Community's member states.

The Commission's report includes a variety of charts and graphs of E.C. economic data, as well as detailed reports on the economies of the 10 member states.

"Annual Economic Report 1985-86: A Cooperative Growth Strategy for More Employment" will be published as Issue No. 25 of the Commission's periodical European Economy. It will be available for \$9 from the European Community Information Service, 2100 M Street, NW, #707, Washington D.C. 20037; (202) 862-9500.

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Main economic aggregates, EC(2), 1961-86

	GDP current prices	GDP real terms	GDP deflator	Private consump- tion deflator	Compen- sation per employee	Current account of balance of pay- ments	General govern- ment net lend- ing or borrowing	Money supply (M2/3) (3)	Unemploy- ment (% of labour force)	Employ- ment
	% change	% change	% change	% change	% change	% of GDP	% of GDP	% change	%	% change
1961-70	9,0	4,6	4,2	3,7	8,8	0,4	-0,4	10,2	2,1	0,2
1971-80	13,4	2,9	10,2	10,1	13,6	-0,1	-2,8	14,4	4,2	0,2
1981	10,4	-0,2	10,6	11,7	12,6	-0,5	-5,4	10,9	7,6	-1,3
1982	10,7	0,5	10,1	9,8	10,6	-0,6	-5,6	10,7	9,2	-1,4
1983	8,9	1,0	7,8	7,6	8,7	0,1	-5,5	9,7	10,3	-0,5
1984	8,0	2,2	5,7	6,2	6,7	0,1	-5,4	8,7	10,8	0,2
1985 (1)	7,6	2,3	5,1	5,2	6,3	0,5	-5,2	8,4	11,2	0,4
1986(1)	6,7	2,5	4,1	3,9	5,4	0,6	-4,8	6,7	11,1	0,5

(1) Forecast of the Commission services, on the basis of present policies, September 1985.

(2) EC average calculated with current GDP weights at purchasing power parities.

(3) End of year (annual growth rate).

Note: Percentage changes are given as annual rates.