

# EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

No 11 — November 1982  
Recent economic trends

Supplement A

**Drop in industrial production in mid-year.** — The index of industrial production in the Community fell for the third consecutive month in August, by 0,9% (seasonally adjusted) bringing the level of the index to its lowest level for nearly 4 years (Graph 1 and Table 1). The last time industrial production declined in 3 consecutive months was in mid-1980, at the beginning of the present recession. After remaining roughly stable since the beginning of 1981 the underlying trend of industrial production as measured by the three-monthly moving average has now turned down sharply and has fallen to its level of October 1978. Results for individual Member States indicate major fluctuations in production (notably in Italy). In Germany industrial production rose in August but the trend showed a further decline as was also the case in France and Italy. In the United Kingdom, the index of industrial output is still marginally higher than the year-ago figure.

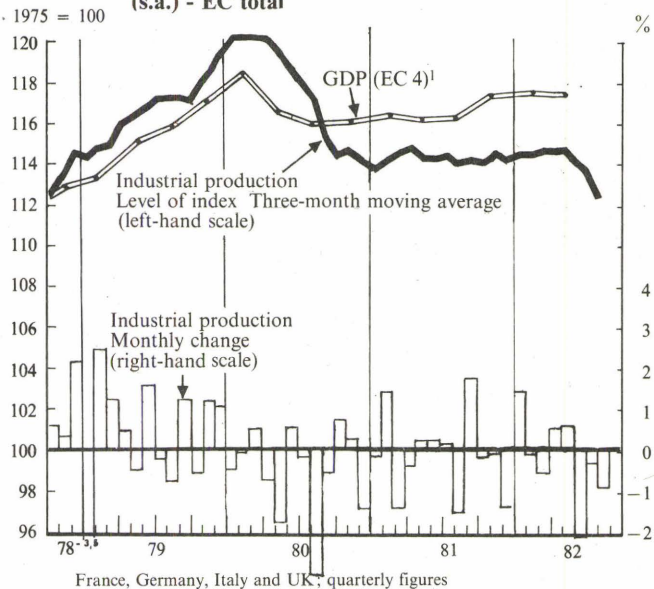
**New surge in unemployment.** — The rate of unemployment in the Community (seasonally adjusted) reached 10% in September, up from 9,8% in August. The increase in the number of unemployed, at 228.000, is the largest rise since October last year. Among the Member States, the worst hit were the Federal Republic of Germany, where the unemployment rate rose 0,4 percentage points, and the Netherlands (up 0,3 percentage points). In both these countries the rise in unemployment is accelerating again on a twelve-monthly basis (Table 2). Unemployment also increased sharply in the United Kingdom (up 0,3 percentage points), but increased more slowly in the other Member States.

**Uneven progress on inflation.** — The month to month increase in Community consumer prices in September (0,7%) was marginally higher than the favourable July and August figures but the trend rate (the seasonally adjusted change over six months) dipped somewhat to 9 1/4%. In the United Kingdom the index remained unchanged in August, for the third consecutive month. French price control measures continued to dampen the rise in the index significantly for the third successive month bringing the trend rate to 7 1/2%. In the Federal Republic of Germany some acceleration in the month to month rate was recorded despite the favourable impact of lower food prices, whereas in Greece food prices boosted the index after falls in the preceding two months. Some slowdown in the inflation rate was seen in Italy in September but preliminary figures for October suggest a rise of the order of 2%. In Belgium the October rise slowed down to 0,8%, this rate being largely due to a 0,6% contribution from energy prices.

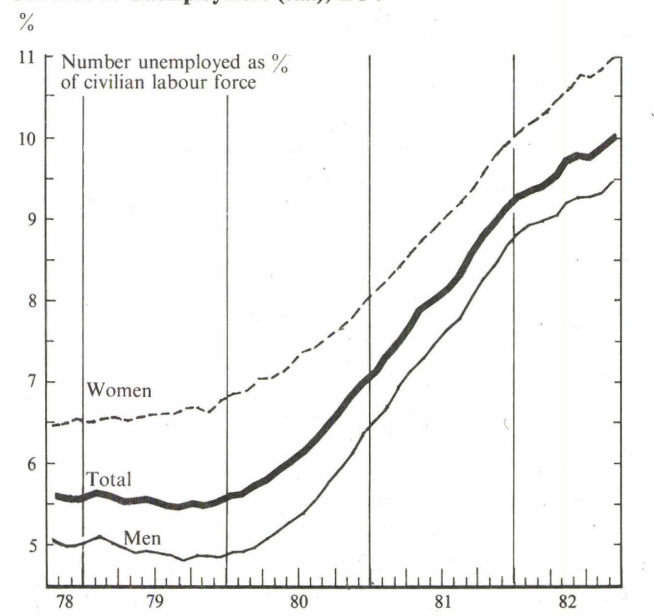
**Some recovery in retail sales in mid-year.** — After falling sharply in May, the volume of retail sales in the Community recovered somewhat in June, rising by 1,7% over the previous months (seasonally adjusted). This is the largest monthly rise this year. Incomplete results for July are rather mixed, with a sharp fall in France, a lesser decline in Denmark, but strong growth in Belgium and the Netherlands, some increase in the Federal Republic of Germany, and a maintenance of the trend in the United Kingdom. It is likely therefore that in the Community as a whole, the growth of retail sales will have remained positive in July, although lower than in June. Preliminary results for August show a continuation of the positive trend in Germany and the United Kingdom and some growth in France, probably as a result of tourist spending, but a sharp drop in Denmark.

**Foreign trade: variable results.** — The improvement in the Community's trade balance (FOB-CIF) in July, which involved six Member States (Belgium, Denmark, Greece, France, Italy and the United Kingdom) was not confirmed in August, when the deficit is estimated at 2 000 million ECU compared with only 1 170 million ECU in July. The deterioration was substantial in Belgium, Denmark, Ireland, Italy and

GRAPH 1: Industrial production and gross domestic product (s.a.) - EC total



GRAPH 2: Unemployment (s.a.), EC 9



the United Kingdom. The surplus remained practically at the same level as in July in the Federal Republic of Germany, while there was a slight contraction of the deficit in France. The preliminary figures for September show a reduced deficit in Denmark and an unchanged surplus in the Federal Republic.

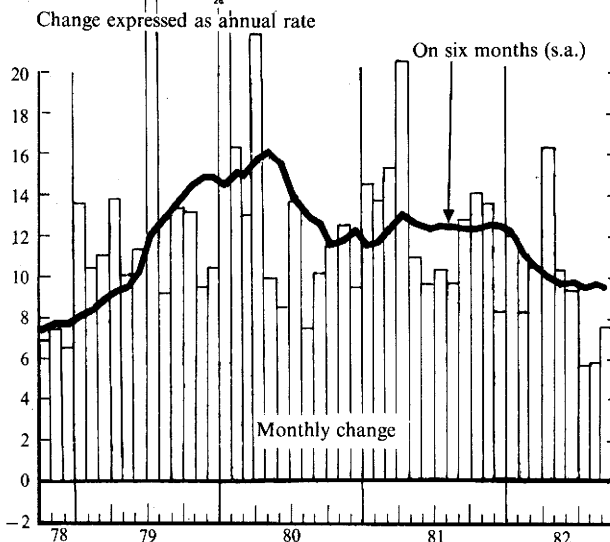
**Average Community monetary growth stable.** — The average rate of monetary growth in the Community in July, at 0,9%, was the same as during the previous three months. The increase in the monthly rate of monetary creation in several Member States was offset by the marked loss of momentum in the Federal Republic. Monetary growth speeded up considerably in Denmark as a result of a slower outflow in connection with the balance of payments, in France because of a major increase in gold and foreign currency counterparts and in the Netherlands — although there monetary growth had been exceptionally slow during the second quarter. The money supply increased by 2% in Belgium from the end of March to the end of June. In the United Kingdom, Sterling M3 increased substantially in August (by 1,4%) and again in September (by 1,1%), while the growth of M3 in the Federal Republic also regained momentum in September.

**Further fall in interest rates.** — The decline in interest rates continued in October in most of the Member States, so that the Community average for short-term rates is now under 12%. The monetary authorities have encouraged the movement by lowering key rates in the United Kingdom, the Federal Republic of Germany, the Netherlands, Belgium and France. However, in Denmark the money market rate, which had already increased considerably in September, firmed further to an average of almost 22% for October. In the United States, despite the lowering of the discount rate early in the month, the rate on three-month Treasury bills rose slightly at the end of the month. There was a slight increase in the yield on long-term public sector securities in Belgium, Denmark and Luxembourg in September, but the relaxation in the other Member States led to a decline of three tenths of a point in the average yield for the Community.

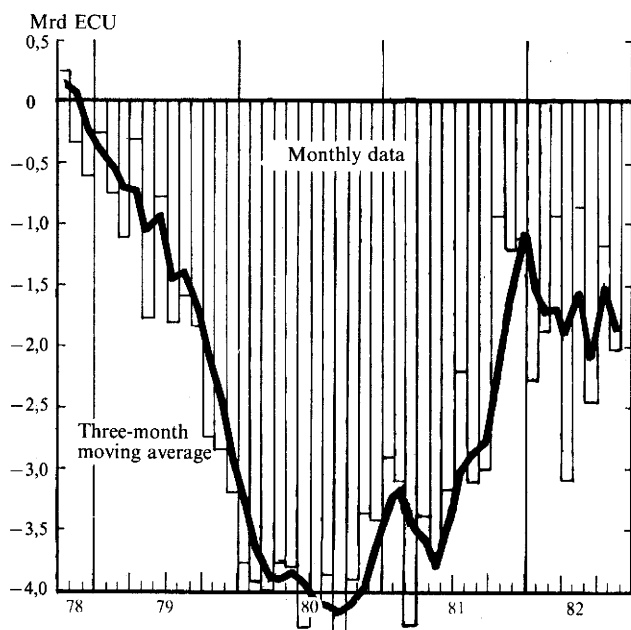
**European currencies between a steady rising dollar and a declining yen.** — After a brief setback against the European currencies early in the month, the dollar once more began to gain strength steadily as a result of declining interest rates in Europe. On average over the month, the US dollar gained 1,2% in relation to the ECU, while the yen continued to decline, losing 1,9% against the European currencies. Within the EMS exchange agreement, the Dutch guilder remained particularly firm throughout the period, the clear leader in the 2,25 exchange-rate margin arrangements; last place was taken by the Belgian franc. After the devaluation of the Swedish krona on 8 October, the Danish krone weakened considerably but recovered thanks to the adoption by Parliament of the Government's austerity programme. The Irish pound, the Belgian franc and especially the lira lost some ground against the ECU, while the pound sterling and the guilder gained strength.

15 November 1982

GRAPH 3: Consumer prices EC 10

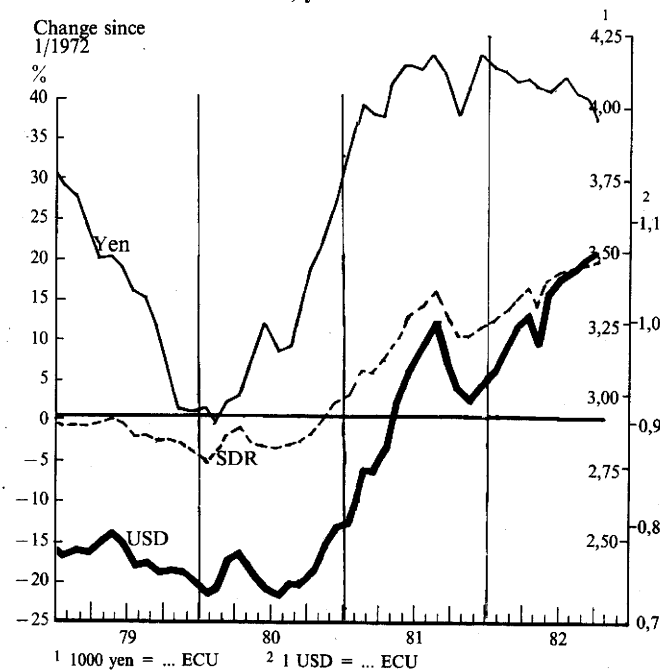


GRAPH 4: Trade balance (s.a.), EC 9



From March 1981, the series is constructed on the basis of an estimate for the United Kingdom.

GRAPH 5: Value of USD, yen and SDR in ECU



1 1000 yen = ... ECU 2 1 USD = ... ECU



# EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A — No 11

Economic briefs

November 1982

## Communication of the Commission to the joint meeting of Ministers of finance and economic affairs, employment and social affairs, 16 November 1982

### 1. Introduction

In response to the increasingly acute problem of unemployment in the Community, the European Council in 1981 summoned a Joint Council, with the participation of Ministers of finance and economic affairs and of employment and social affairs. This was held in Luxembourg on 11 June 1981. The purpose was to develop a higher degree of mutual understanding of all aspects of the unemployment problem and to examine in common the economic and social situation and the scope for further Community initiatives aimed at complementing and strengthening adjustment policies in the Member States.

The Joint Council, in particular, examined ways to improve the general economic environment, to reduce unemployment and to increase the capacity of our economies to adapt to economic changes. The Joint Council expressed interest in examining the experience of some Member States with respect to adaptation of working time and stressed the importance of combating youth unemployment and of ensuring appropriate professional experience for young people. The anxieties which prompted the calling of the 1981 Joint Council, however, have been increased rather than allayed since then by the trend in unemployment and other economic indicators. This reinforces the need for a comprehensive strategy of recovery, comprising a range of policies which can together call forth a stronger social consensus.

The present communication, after a short analysis of the current economic situation and prospects, takes stock of developments on various points of interest to the Joint Council and identifies areas where particular further Community initiatives and coordination efforts are required. The discussion should also take into consideration the various communications and proposals to the Council which are under examination.

The Commission wishes to underline that these communications and proposals together aim at providing a more comprehensive strategy to cope with the present economic difficulties. The Commission asks the Council to express its support both for the actions figuring in this communication and for the other initiatives already proposed to the Council.

### 2. The economic situation: prospects and uncertainties

Since June 1981, unemployment has increased sharply and by September 1982 exceeded 11 million persons (more than 10% of the labour force). This deterioration is *inter alia* the result of the poor growth performance in the Community since then: the Community's gross domestic product hardly rose at all during the second half of 1981 and stagnated in the first half of 1982, mainly as a result of weak trends in exports (+0,3% over the second half of 1981) and in investment (-3,8% over the second half of 1981) in the Community.

Although the rate of inflation has been reduced in 1982 to about 10% on average for the Community the divergence of inflation rates among Member States remains very high with the increase in consumer prices ranging from 23 to 5%. The deficit on the current account of the Community's balance of payments, which reached 1,4% of gross domestic product in 1980, may be reduced to 0,7% of GDP in 1982. The general government borrowing requirement, on the other hand, is estimated at 5,0% of GDP in 1982 or almost the same as in 1981. In both these areas differences between Member States are very large, with budget deficits ranging from 15% to less than 1% of GDP and external deficits reaching 9% of GDP in one case while some Member States record a surplus of up to 4% of GDP.

The annual number of net entries into the labour force in the early 1980s remains for the Community as a whole close to one million people.<sup>1</sup> Over this decade the net entries will gradually decline, but remain positive. In order to achieve a noticeable reduction of unemployment, in addition to absorbing the net entries, the total number of jobs in the Community would, therefore, have to increase by considerably more than one million per year over the next few years.

The medium-term outlook for economic growth and employment remains bleak. The reasons for the new and unexpected weakening of economic prospects are complex:

- the high level of interest rates resulting from instability and disorganization of the international monetary system has certainly been a major factor;
- moreover international trade has stagnated: indeed the financial difficulties of many less developed countries as well as some centrally planned economies have forced them to reduce their imports from the Community. At the same time many OPEC countries were to an increasing extent limiting their purchases from abroad;
- within the industrialized countries many firms have experienced increasing problems in servicing their debts and have consequently been cutting down on investment, stockbuilding and employment.

The present economic difficulties are not only due to these factors, but also to the Community's difficulty in adapting to changes in the economic environment and in undertaking necessary structural and institutional adjustments:

- too little has been accomplished in terms of substitution of oil by other energy sources; as a result the Community's dependence upon imported oil remains excessive;
- in many Member States, income formation has taken insufficient account of the need to maintain a profitable and dynamic enterprise sector;
- despite considerable efforts to contain the rise in social expenditure several Member States have been unable to adapt the level and particularly the growth of public expenditure to conditions of slower GDP growth; as a consequence budget deficits in some countries have increased to such proportions that their financing is creating serious internal or external problems;
- moreover, faced with the need to contain budget deficits, governments have tended to reduce the share of those public expenditure categories which contribute directly to economic development as well as to improved competitiveness and thus to the conditions for higher employment;
- existing rigidities in the labour market have been reinforced by the reluctance of the workforce to contemplate geographical and occupational mobility in the face of increasingly insecure employment, housing difficulties and a lack of vacancies for other family members.

In any case these difficulties as well as the structural measures necessary for finding lasting solutions require that all the social partners be willing to cooperate effectively in the creation of a better social consensus.

### 3. Community initiatives in the economic and social field.

Europe's most pervasive problem is now the high and growing level of unemployment. Given the severity of the current recession and the recent sharp aggravation of unemployment, economic and social policy

<sup>1</sup> Unpublished estimate calculated by Eurostat on the basis of 1979 participation rates.

in the Community should be geared even more directly towards the creation of an economic environment more favourable to employment creation. The Commission has already presented on several occasions the economic policy measures which it considers appropriate to this end: the Commission wishes to underline yet again that these measures, which must be taken at national and Community levels, are absolute pre-conditions for a lasting improvement in the employment situation in the Community. These economic policy measures concentrate on stabilizing the international monetary and financial situation, on improving the competitiveness of the economy and on building on the achievements of the fight against inflation. The dangers and risks of the present economic situation can only be checked and reversed if the appropriate policies are backed by a stronger social consensus and a broader-based willingness to accept and share the adjustment process in public finance and labour costs. Moreover while not forgetting the economic constraints and the fact that rigorous measures are necessary, efforts should be made to ensure that the burden of the present economic difficulties does not have an excessive impact on the more vulnerable groups and that existing social inequalities are not further widened.

The Commission develops below elements of those policies which are of particular interest to the Joint Council under the three following headings:

- (i) strengthening the economic environment;
- (ii) reorganization of working time;
- (iii) improvement of employment opportunities for young people.

#### (i) *Strengthening the economic environment*

The main objective of economic and social policy must be the recreation of such economic conditions that enterprises are prepared to invest and to absorb the increased labour force in profitable and competitive jobs. The Commission therefore considers it necessary to construct the basis for investment-led growth through, notably, initiatives aimed at improving international economic and financial stability, at increasing convergence and stability within the Community while achieving the best possible level of activity, and at promoting structural change and expansion of investment in the medium term.

##### (a) *International economic and financial stability*

In this area, the Community, acting on the basis of the EMS, must endeavour to ensure that an effective monetary cooperation be established between the United States, Japan and the Community along the lines of the conclusions of the Versailles Summit. It is indeed essential for stabilization and adjustment efforts in Member States to be successful that the whole international monetary system is managed in such a way as to allow interest rates to decline in line with the slow-down of inflation and to assure a better stability in exchange rates.

Moreover, intermediate financing to support adjustment policies and to eliminate the real risk of a cumulative downturn in world trade must be provided by the industrialized countries and their main financial institutions. As the largest trading bloc in the world, the Community has a particular interest in ensuring stability in the international monetary and financial system; the Community, in particular, is in favour of increasing the resources available to development in general and notably the International Monetary Fund and the World Bank as a necessary complement to the private capital flows. The Community's own development aid programmes, moreover, have an important role to play in the financing of development efforts in the LDCs and the Commission, in the context of a general review of aid policies, has recently suggested an increase in Community resources for this purpose to one per thousand of the Community's GDP over the coming 10 years. However, even a contribution at this level would only be a small complement to the efforts which must be made by the Member States.

##### (b) *Increase of convergence and economic stability within the Community*

Within the Community advantage should be increasingly taken of the contribution which the European Monetary System can bring to the building of a more stable environment which is more conducive to the development of real activity and thus to the improvement of the employment situation. The EMS in 1981 and 1982 has given proof of its capacity to accommodate central rate adjustments while maintaining its cohesion in face of the instability of the dollar. As proposed by the Commission in its communication of February 1982, it is necessary at the same time to strengthen the EMS mechanisms and to reinforce the convergence of economic performances through a closer coordination of economic policies. In this respect, domestic monetary and budgetary policies, as well as efforts to narrow divergences in price and cost developments should contribute substantially to balance of payments adjustment.

In view of this objective, but also with the purpose of freeing budgetary resources for high priority expenditure, the Commission in its communication on budgetary discipline and economic convergence

proposed a framework for a reduction of government budget deficits and a better control of medium-term trends in public expenditure. General support for the principles of budgetary discipline outlined in this communication would contribute significantly to moderating inflation expectations and facilitate a reduction of interest rates.

The implementation of these policies must be graduated in response to the employment situation and the overall cyclical development and differentiated according to the situation of the individual Member States:

- most Member States are in need to re-establish urgently control over their budgets as well as to intensify their efforts to bring about a lasting deceleration of inflation;
- at the same time, in view of the present risk of cumulative deflation, countries recording a satisfactory slow-down in inflation and which are in a more favourable financial position should avoid action to offset increases in budget deficits that would result from a further worsening of the economic situation. Interest rate reduction should still be a priority objective in present circumstances. But as and when the scope for interest rate reduction is exhausted, if no improvement is in sight and provided that the pace of inflation has slowed markedly and that the public finances are not excessively out of balance, budget policy initiatives to support economic activity could become wholly compatible with monetary policy objectives. Such budgetary action could typically include tax cuts or changes in tax and expenditure structures designed to have maximum supply-side and employment benefits.

##### (c) *Medium-term policy and structural change*

The Community should now take all possible steps, including a better utilization of its own instruments, to improve the medium-term economic prospects through a set of policies aimed at accelerating structural change and strengthening the competitiveness of enterprises. In its review of the problem of investment in the Community submitted in July, the Commission stressed that an investment drive is necessary to safeguard the competitiveness of the Community's industry, to relax the energy constraint, to permit a return to growth and to create new jobs. Strong support for an expansion of investment as a major instrument of employment creation was also expressed in the resolution of the Council (Social Affairs) of 12 July 1982.

A mobilization of resources in favour of investment is necessary: in particular an increasing share of savings must be directed towards productive activity. Adequate mechanisms should be put in place to ensure that such a mobilization actually occurs and has the desired positive effects: it is the responsibility of businesses to achieve a genuine improvement in their competitive position by making full and effective use of investment opportunities. Such an effort must result in an effective increase of the share of investment in GDP. This implies *inter alia* the adaptation of existing indexation mechanisms with a view to excluding factors outside corporate control such as terms of trade losses, consequences of exchange rate depreciation and changes in indirect taxation. Such policies should be implemented without prejudice to measures necessary to project incomes of the lowest paid.

Although the general level of capacity utilization is a major determining factor for investment, the weakness of investment in the Community since the first oil shock attributable to uncertainties about inflation and exchange rates, rigidities and regulations and other economic and social obstacles. Efforts to promote investment in the Community must therefore, in addition to a general policy conducive to macroeconomic stability, include both initiatives to eliminate or reduce such obstacles as well as various positive measures to actively improve the investment climate.

Public authorities have a particular responsibility in the field of investment: while under the budgetary constraint, they possess power of regulation and financial means; in addition, in conditions of low growth, they are less constrained by the need for immediate returns on the invested capital than the private sector. Public investment should be directed towards the stimulation of investment and employment growth in the private sector and would thus contribute to restoring business confidence.

A detailed proposal for initiatives to promote investment was recently presented by the Commission to the Council. In this communication, the Commission considers that measures ought to be taken both in the Member States and at Community level:

- national measures should concentrate on increasing corporate resources available for investment and reinforcing the efficiency of investment aids and subsidies, and on restructuring the public budgets in favour of development-orientated expenditure;
- measures to be adopted at Community level in favour of investment should include a strengthening of the Common Market as well as action in the field of energy, industrial innovation and of R + D, in activities such as information technology and bio-technology, and in the area of industrial reconversion.

In order to provide the Community with the means to pursue such policies, the Commission has submitted to the Council proposals of a budgetary nature (financial incentives for investment in the field of rational use of energy, non-quota section of the Regional Fund). In

The Council is determined to make full use of existing procedures for the close coordination of Member States' economic policies. The potential of the European Monetary System with regard to increased discipline and greater convergence in the economic performance of Member States is a major consideration in efforts to strengthen the EMS.

### 3. Investment

The Council noted the conclusions, including the procedural decisions, reached by the Council (ECO/FIN) on 15 November 1982.

The Council reaffirms that all possible means for a substantial increase of the share of GNP taken up by productive investments to increase employment should be systematically and urgently exploited in a coordinated manner, both at national and at Community level.

Concerning national policies, the Council notes with satisfaction that, since the meeting of the European Council on 29 and 30 March 1982, some Member States have put into effect important measures with a view to increasing investment, and several others intend to implement measures shortly. The Council agrees that the need for additional measures to promote investment will be regularly reassessed.

Priority attention will be given to action which increases the profitability of and the ability to form capital in enterprises.

The particular role and potential of small and medium-sized enterprises (including cooperatives) will be given specific attention.

The Community instruments, EIB, ECSC, the new Community instrument, as well as the Regional Fund, now undergoing revision, will continue to play an important role and must therefore be used to their full extent and with a high degree of effectiveness. The Council noted with interest that the Commission has proposed a 3 000 m ECU increase in the borrowing capacity of the NCI, and the Council intends to reach a clear decision on this early in 1983. The Council will also give further consideration to the recent Commission proposal for interest rebates at Community level in the field of the rational use of energy.

### 4. Internal market

The Council agrees that the re-establishment of confidence essential to recovery and to greater private investment presupposes the safeguarding of the Common Market and a rapid development towards its completion, an essential factor in the Community's economic development. The Council therefore agrees that appropriate work programmes will be established for accelerated progress in the fields of technical standards, company law, certain services and internal frontier formalities. The Council is of the view that a session of the Council should be devoted to these issues in order to make substantial progress towards the completion of the Common Market.

The Council agrees that member governments will review the practices of their national administrations in this field. The Council invites the Commission to present urgently an evaluation of the functioning of the Community's internal market.

### 5. Industrial policy

A marked increase in firm's competitiveness and profitability in all Member States has to be achieved if the Community is to face competition from other major industrial countries and from the newly industrialized countries. The Community and Member States will seek to help their industries not only by removing administrative and financial constraints, but also by encouraging inter-industry cooperation in strategic sectors, within the rules of the Treaty.

Bearing in mind the importance of new technologies in any industrial recovery much greater emphasis will be attached to innovation policy at both national and Community level. Small and medium-sized enterprises have a particularly important role to play in this field. Recent decisions by the Council (Research) should rapidly be followed up.

The examination of Commission proposals to this effect should be accelerated.

The Council recalls the urgency of industrial reconversion. The ECSC and the Regional and Social Funds should continue actively their contributions in this field.

The Council while emphasizing the vital importance for industrial

development of maintaining conditions of free competition agrees that in the present international economic climate care must be taken to ensure that the Community conducts an efficient commercial policy able to ensure that our external trade is conducted in conditions of competition, in accordance with the principles of the GATT.

### 6. Youth and labour market

The Council expresses its deep concern about the employment situation for the young generation and recalls the precise guidelines from the March European Council which emphasized the central place of youth employment in the Community's overall strategy to combat unemployment and reaffirms its commitment of ensuring over the next five years that all young people entering the labour market for the first time should be given the opportunity of taking vocational training or a first job experience.

The Council welcomes the Commission's communication on vocational training and the proposal for the revision of the European Social Fund which aims to improve the employment prospects of young people; these Commission initiatives should be dealt with rapidly. The Council also looks forward to receiving a new communication from the Commission with proposals for specific measures to promote the recruitment of young people and to increase the volume of employment opportunities available to them.

The Council invites the Commission to ensure effective execution of the programme of pilot projects on post-school training and education decided in May 1982 for the period 1983-86; it also instructs the subordinate bodies to accelerate work on the Commission's recent proposal on professional training in new technologies for the period 1983-87.

Regarding national policies the Council emphasizes the importance of concrete schemes for education and vocational training for young people.

### 7. Reorganizing of working time

The Council considers that a reorganization of working time, possibly in combination with a reduction in working hours, can under certain conditions help improve employment, in particular if a more flexible use of the means of production is involved. The Council:

- agrees that a reorganization and a reduction of working hours can only have positive employment effects if the competitive position of firms is not impaired, if there is sufficient flexibility in the labour market to prevent bottlenecks, and if appropriate account is taken of the specific and sectoral characteristics—notably the size of the firms;
- notes with satisfaction that the Commission intends to present before the end of 1982 the memorandum on working time requested by the Social Affairs Council on 27 May 1982;
- notes that the Commission will continue its work towards the formulation of a Community approach, where appropriate, on the reorganization of working hours, in accordance with the Council resolution of 18 December 1979;
- invites the Social Council to conclude its consideration of the proposed directive on voluntary part-time employment and the draft recommendation on flexible retirement.

### 8. Other specific measures

The Council invited the Commission to undertake a study of long-term unemployment and possible proposals for remedial action.

It also noted the suggestion of one delegation for an updated Commission study of ways and means to further the participation of workers in the capital formation of enterprises. The Commission will examine this idea and make such proposals as it seems appropriate.

## III. PROCEDURE

It is agreed that the Council in its appropriate formations should ensure rapid implementation in the relevant areas covered by the conclusions.

In addition to measures to stimulate recruitment, thought needs to be given to a new approach to subsidized job creation. There have in the past been several types of initiatives in the area of temporary job creation—'make-work' programmes supported by public funds, temporary jobs in the public sector and so on. These have most often been of limited scope and duration and have sometimes encountered the opposition of public service unions, themselves affected by cuts in the public sector. Given the sheer scale of youth unemployment, particularly in areas of the Community where the traditional private sector of employment is simply not capable of generating enough vacancies to satisfy first job seekers, an expansion of certain forms of subsidized job creation is urgently required.

Particular attention should be paid in this respect to the employment potential of various non-traditional forms of enterprise which young people can be specifically encouraged and trained to set up for themselves. There is also scope for job creation partially supported by public funds in the intermediate area between the traditional public and private sectors, for instance in the area of environmental protection and social services. Public subsidizing of certain activities, especially those designed to benefit local communities or to the restructuring of the economy can constitute from both an economic and a social point of

view a more efficient use of public resources than the income support that would otherwise be required for unemployed young people and the long-term unemployed.

Alongside such actions, a much more developed system of local guidance and counselling centres for young people is required, to support and encourage young people not only when they are about to enter the labour market but also when they are trying to find durable employment within it in their teens and early twenties. The Community has a role to play, in particular through its various financial instruments in supporting the expansion of special employment provisions for young people and as well as for other disadvantaged groups such as the long term unemployed. The Commission for its part is preparing a new communication on youth employment which will be submitted to the Council later this year. It also intends to study a number of particular related issues, including the possibility of setting employment quotas for young people in part or all of public employment, the influence of different types of age-related salary scales on employers' choices between workers and the specific problems that need to be tackled for those young people who experience repeated and prolonged periods of unemployment. Better understanding of these issues could help strengthen policy in the future.

## **Conclusions of the Joint Council (ECO/FIN-SOC) on 16 November 1982**

The Council met on 16 November 1982 to discuss the economic and social situation against the background of the conclusions of the European Council meetings in Brussels on 29/30 March and 29 June 1982. The Council was composed of Ministers for economic and financial affairs and Ministers for labour and social affairs. Representatives of European workers' and employers' organizations were consulted before the start of the meeting.

The Council reaffirms the importance it attaches to the close and continuing association of the social partners in the development of Community policies.

The meeting, like the one held in Luxembourg on 11 June 1981, took place in order to develop a higher degree of mutual understanding of all aspects of the unemployment problem and to examine in common the economic and social situation and the scope for further Community initiatives aimed at complementing and strengthening adjustment policies in the Member States.

### **I. THE ECONOMIC AND SOCIAL SITUATION**

The gravity of the present economic and social situation characterized by a continuation of the recession, of high rates of inflation in a number of Member States, and high levels of unemployment growing at different rates in all Member States makes it imperative that all efforts at the national as well as the Community level be made to bring about a marked change. This need calls for action in the immediate, in the medium and in the longer term in a number of areas which were examined by the Council, with a view to establishing a strategy comprising the promotion of economic and financial stability, an increase in investments, promotion of the competitiveness and profitability of industry, completion of the Common Market, and positive labour market adjustments, leading to a marked improvement in the employment situation which is the most urgent task of the Community in the present circumstances.

A lasting increase in employment will have to spring from a strengthening of the competitive capacity and profitability of undertakings, which presupposes an improvement of the economic situation in general, building upon the achievements in the fight against inflation.

The dangers and risks of the present economic situation can only be checked and reversed if appropriate policies are backed by a broad-based willingness to share the necessary costs related to the adjustment process. Close consultation with the social partners is of particular importance in this respect. Efforts should be made to ensure that the burden of the present economic difficulties is shared with due regard to the more vulnerable groups; in particular, efforts to reduce existing social or regional inequalities should not be jeopardized in the adjustment process.

### **II. MEASURES**

#### **1. International economic and financial stability**

The Council reaffirms the Community's determination to continue to combat protectionist tendencies in all its forms in international trade including use of competitive devaluations. They are one of the main dangers to the world economy and to living standards. Ministers recognize the need to develop policies which can contribute in a more significant way to the strengthening of trade flows.

The stabilization and adjustment efforts by governments can only be successful if the international monetary system is managed in a way that allows interest rates to decline and exchange rates to stabilize. The Community intends to play an active role in cooperation with other countries, in particular the USA and Japan, in order to strengthen the international financial system and to reduce uncertainties in international financial relations. It intends to make a substantial contribution to ensuring a successful result of ongoing efforts to reinforce the role of the multilateral financial institutions, particularly the IMF and the World Bank.

#### **2. Convergence and economic stability within the Community**

It is essential that interest rates continue to fall, in order to strengthen productive investment; in this context the Council considers that control and redistribution of public expenditure and reduction of budgetary deficits is indispensable. This is in particular true for countries that still experience a high rate of inflation and where insufficient progress has been made towards a reduction of budget deficits and bringing both public finances and external payments into better balance.

At the same time the Council underlines the risk which could arise if all Member States independently of their level of inflation, level of real interest rates or financial situation pursue the same degree of restraint with regard to public expenditure. Countries recording a satisfactory slow-down in inflation, reduced real interest rates and a more favourable external fiscal and monetary position should consider using the scope for budget policy initiatives to support economic activity.

An important objective is the redistribution of public expenditure from consumption towards productive investment and activities which will strengthen the productive capacities of enterprises. The Council (Economic and Financial Affairs) will, in 1983, in connection with the annual approval of budget guidelines and on the basis of a Commission report, undertake an analysis of Member States' public budgets in order to review the evolution of productive public expenditure.

accordance with the conclusions of the European Council, the Commission has also submitted to Council, in October 1982, a proposal for a new tranche (3 000 million ECU) for the new Community instrument for the financing of investment in infrastructure and energy, and productive investment in general with priority given to investment in small- and medium-sized firms.

#### (ii) *Reduction and reorganization of working time*

Reductions in working time have taken place as part of general economic developments this century, the benefits of the increases achieved in productivity being divided between increased leisure and a rise in incomes. More recently, in view of the pronounced increase in unemployment and the poor employment prospects for the medium-term, the question has arisen whether an acceleration of the process of working time reduction beyond the actual trends might contribute to reducing unemployment particularly when combined with a reorganization of working hours.

At European Community level the debate on reducing and reorganizing working hours and expanding work-sharing was launched in various settings in 1978 and 1979, with a Council resolution of 18 December 1979 fixing some general Community principles in this field. In view of social and economic developments in the meantime, the Council (Social Affairs) on 27 May 1982 requested the Commission to present, before the end of the year, a memorandum on the adaptation of working time. As part of its preparatory work the Commission organized a seminar from 5-7 October to reflect on developments in Member States and on current ideas for the reorganization of working time. It was noted *inter alia* that job creation and job maintenance through working time reduction are beginning to become a feature—alongside wages, working conditions and productivity arrangements—in collective bargaining.

A more efficient organization of work resulting from some reorganization of working time possibly in combination with a reduction in working hours can lead to an increase in employment. However this contribution to the reduction of unemployment depends on a number of prerequisites being fulfilled:

- first, the competitive position of firms should not be impaired (i.e. unit production costs should not increase);
- secondly, there must be sufficient flexibility in labour markets to prevent bottlenecks arising in the supply of specific types of labour;
- thirdly, schemes for the reorganization of working time must take into account specific constraints resulting from differences in production methods and/or scale of operation.

More generally these prerequisites mean that any attempt to reorganize working time should be designed and negotiated at the most appropriate level for assessing satisfactorily difficult problems, conflicting constraints and potential adjustments in factors of production.

The need to maintain or reduce unit production costs rules out full wage compensation for the reduction in total income resulting from reduced working hours and it must be made clear that the greater the wage compensation, the smaller is the scope for job creation effects.

Overtime working is for certain types of enterprises, including small-sized firms, an essential element of flexibility in responding, for instance, to fluctuations in production or activity. In some sectors, however, excessive and systematic overtime work is still a regular feature and part of expected income. There is a widespread general agreement that systematic overtime should be further reduced and that working time reductions designed to increase employment opportunities should not instead lead to increased overtime. Measures to limit the systematic use of overtime, for example, by introducing the principle of 'time-off in lieu' instead of payment, need to be undertaken in accordance with the Community policy guidelines set out in the Council's resolution of December 1979.

Greater flexibility in the organization of working time will, in any event, become increasingly necessary to enable industry to adapt to the requirements of new technology, in particular by making it possible to establish longer production schedules. There is already evidence that the collective bargaining process can, in this context, bring within its scope, negotiations on reductions in working time designed to increase the number of jobs available. Such developments are seen, in particular, in competitive firms in growth sectors.

The progressive reduction in the annual volume of working time is not, therefore, just an end in itself, as was the case during periods of economic growth, but can also be a means of redistributing opportunities for employment. When specific measures for reorganizing working time can meet the particular needs of individual sectors and can also fulfil the economic prerequisites referred to above, it could be possible to indicate at Community level and for certain sectors the general conditions and mechanisms for the implementation of a better organization of working time. In any case the precise arrangements concerning job creation, wage compensation, productivity improvements and so on should be left for negotiation at the appropriate level.

Any reduction in unemployment resulting from these developments will in turn mean lower expenditure on social benefits and transfers and increased tax receipts. Governments could therefore consider to what extent they might share in the costs of launching new working time

arrangements. They should also seek to remove legal or other obstacles to a more flexible organization of working time. In order to stimulate policy convergence across the Community in the whole area of working time organization, the Commission will in particular seek to initiate a discussion on possible sectoral indications for a Community approach in accordance with the Council's resolution of 18 December 1979 which could put into effect general indicative guidelines in working time at European level.

Moreover the Commission has already tabled proposals on several of the aspects of working time reorganization dealt with in the Council's Resolution. On flexible retirement, for instance, a draft recommendation is before the Council urging Member States to take steps to give workers the right to choose the time of their retirement from a given age, in accordance with certain principles. It is hoped to achieve Community-wide results in this area where several Member States have already achieved appreciable employment effects.

The Commission's draft directive on voluntary part-time work should be adopted by the Council and once implemented would end the situation in which part-time workers have worse employment conditions than full-time workers, thus making it a more acceptable form of employment and contributing to the wider distribution of work. A more active promotion of part-time work should be undertaken if and when this new legislation comes into operation. In the creation of new part-time jobs, for example through 'job splitting', the principle that the part-time option is voluntary must be maintained.

#### (iii) *Special measures to increase employment opportunities for young people*

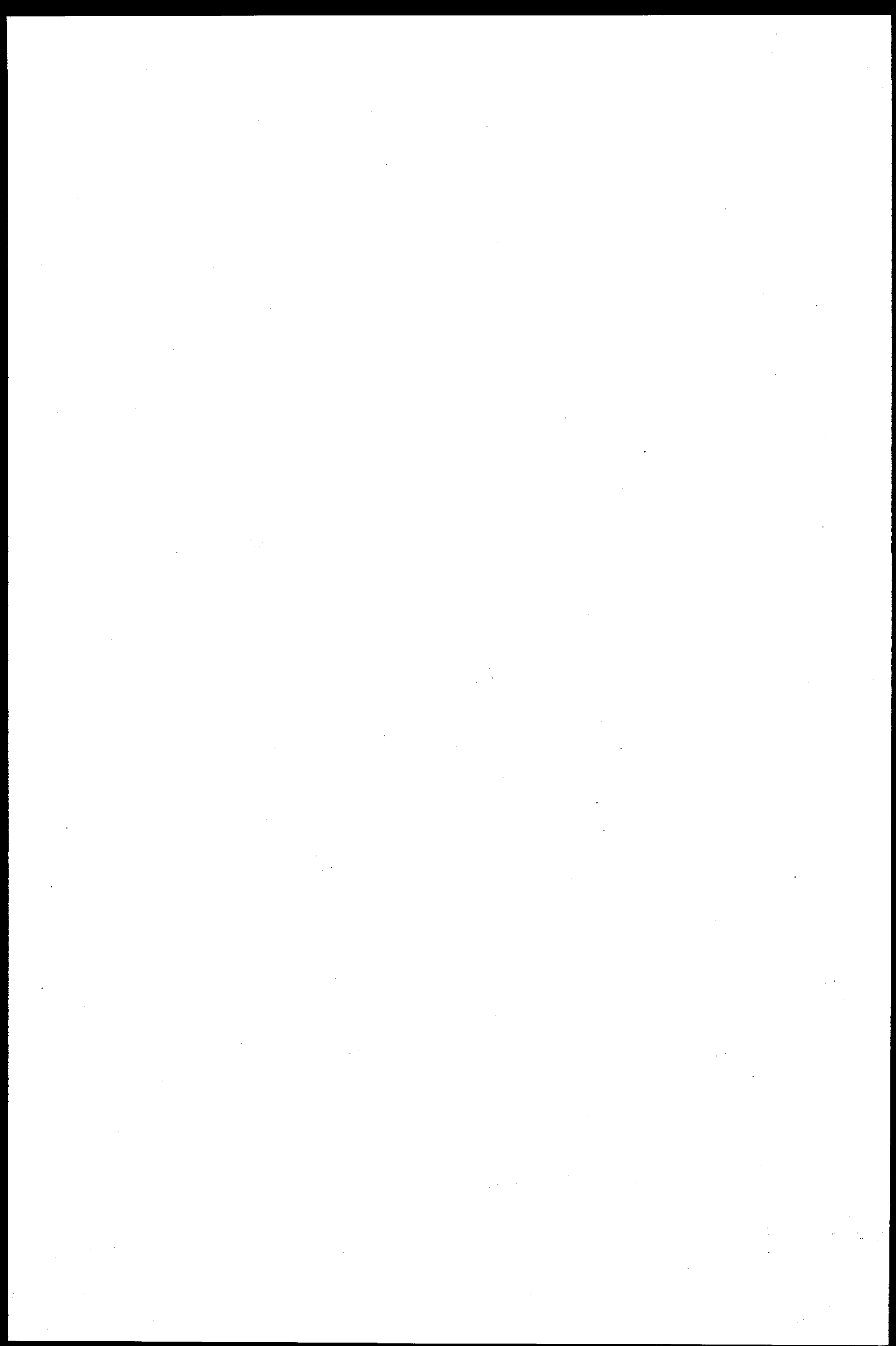
There are almost four million young people unemployed in the Community—that is about 40% of all unemployed workers. Youth unemployment has become a pervasive source of anxiety, but in spite of the whole range of specific measures that have been launched in recent years to assist the young unemployed, it is evident that young people continue to be among the main victims of the recession. They are now experiencing increasingly long spells of unemployment and in certain areas of the Community, many young people leaving school see little prospect of ever getting a foothold in the labour market.

Unless and until the Community's macroeconomic policies succeed in bringing about an improvement in the general economic and employment situation there will clearly continue to be a problem of youth unemployment. Special measures to combat youth unemployment do have a separate rationale as long as they do not detract from the broader policy measures necessary to stimulate employment growth.

The main focus of the considerable efforts already made by national and Community authorities has been on improving the basic skills and employability of young people entering the labour market for the first time. More emphasis needs to be placed on the actual training content of such special measures and on integrating the various training programmes on offer within a coherent overall policy. The Commission is a principal instigator of a Community-wide guarantee of training and work experience for young people, a guarantee to which the European Council committed itself in principle at its meeting on 29/30 March. The Commission has made more detailed proposals in this sense in its communication to the Council on Vocational Training in the 1980s, supported by its Opinion on the Review of the European Social Fund.

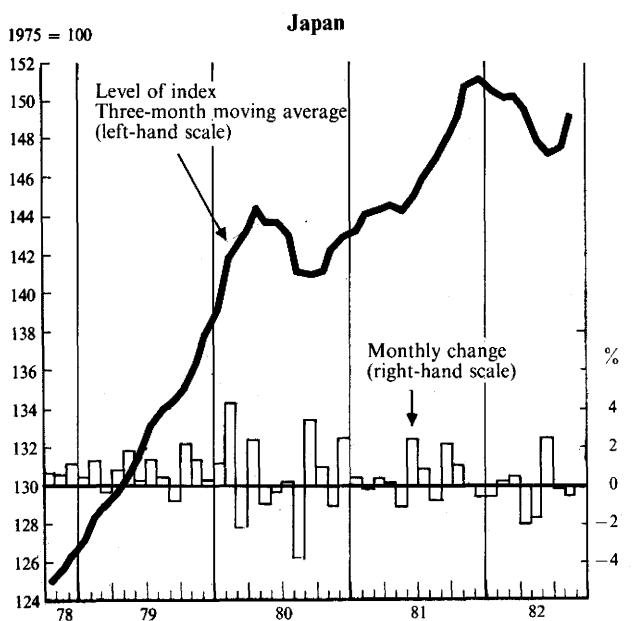
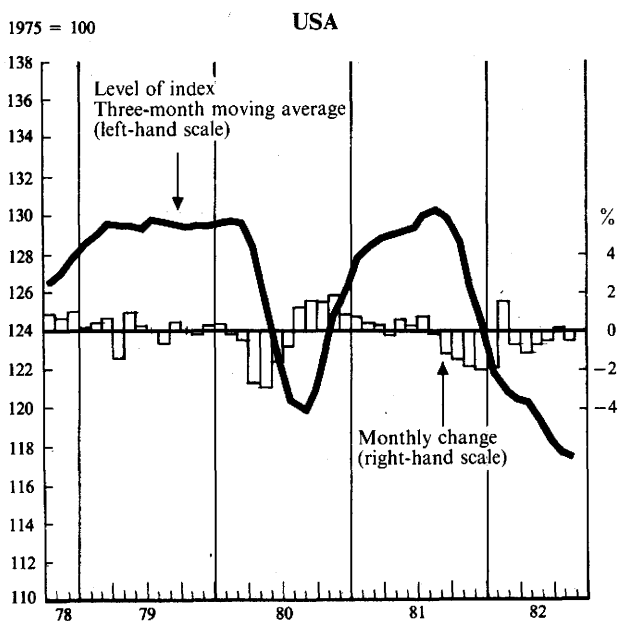
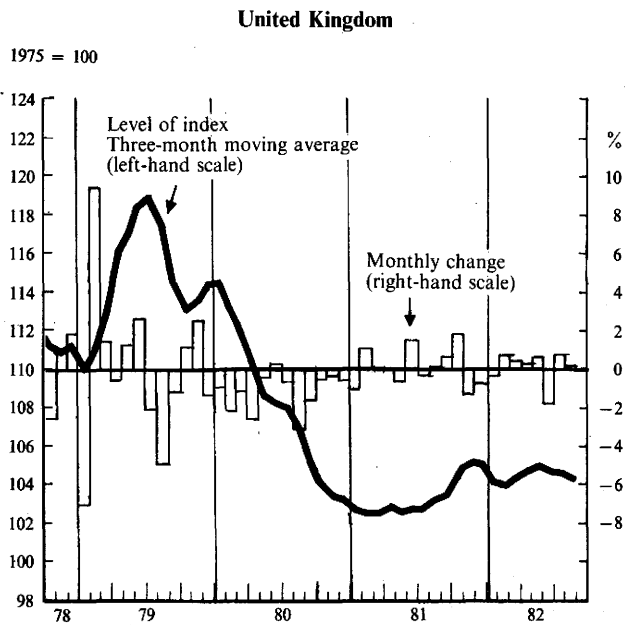
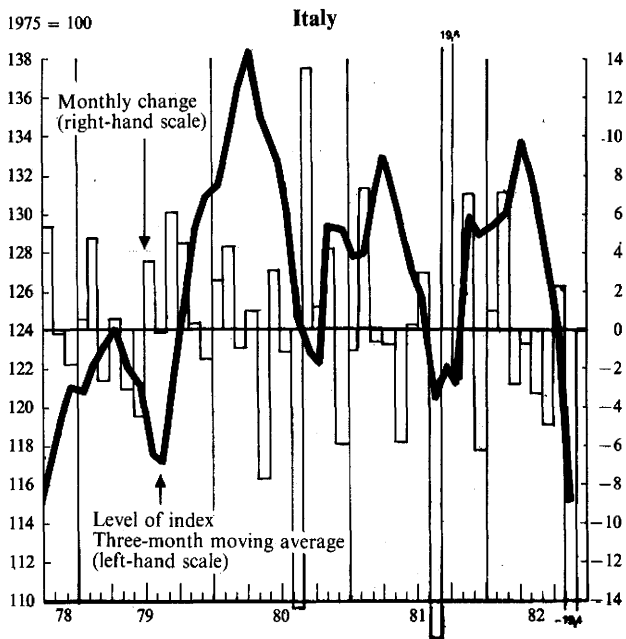
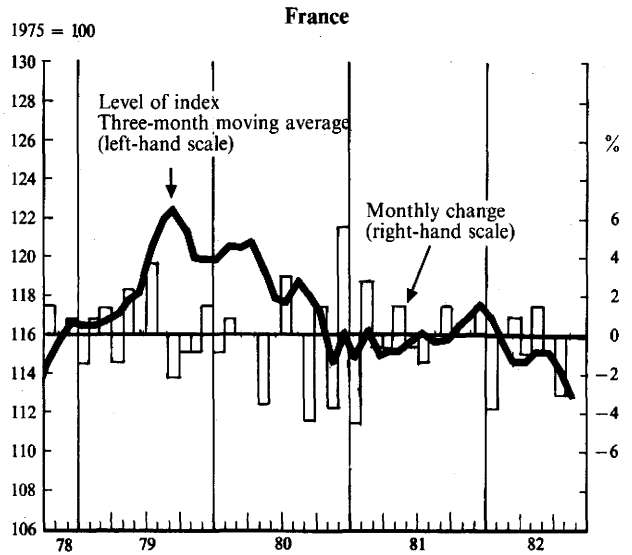
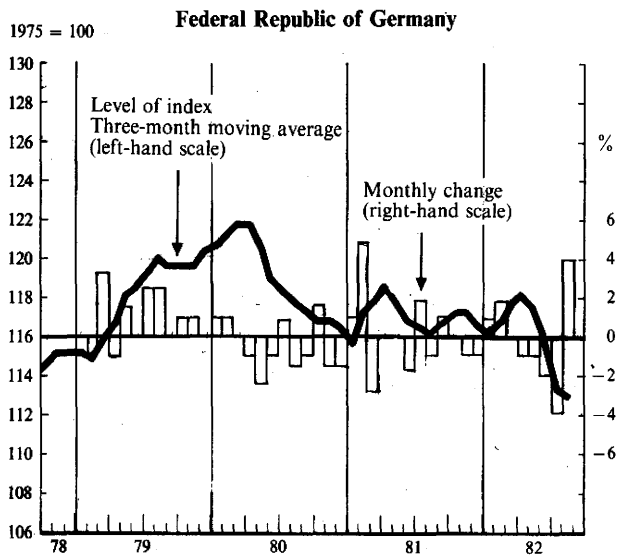
However important the pursuit of an effective training policy may be, the credibility of training in the eyes of young people will depend largely on the availability of employment thereafter. The Commission considers that special measures to promote the recruitment of young people and to increase the volume of employment opportunities for young people are justifiable if today's generation of young people are to retain the capacity to contribute to economic recovery. The problem of reintegrating, both economically and socially, workers who have had no real experience of employment and have become part of the long-term unemployed before they are 25, would otherwise become insurmountable.

The Commission, therefore, believes that it is necessary, in these circumstances, radically to revise existing attitudes to job creation and recruitment policies. Urgent consideration needs to be given by public authorities and social partners alike to the further development of special recruitment programmes for young people linked to reductions in working time—for example by the provision of part-time jobs or shared jobs for young people, either as a separate initiative or as a complement to flexible retirement programmes. Different kinds of employment premiums could be used to stimulate this kind of arrangement. Recruitment premiums or other forms of wage subsidy can also be used to help particularly disadvantaged young people obtain stable employment and to promote the employment of young women in jobs where they are traditionally underrepresented. Such measures may be controversial insofar as they discriminate in favour of young people. They should therefore be used selectively, and made available to other disadvantaged groups such as the long-term unemployed. Conditions need to be established to ensure that premiums do not simply subsidize the recruitment of young people who would have been taken on in any event nor make of young people a reserve supply of cheap labour.





GRAPH 6: Industrial production (s.a.)



Sources: National data.





## Major economic policy measures — October 1982

### Community (EC)

20.10 The Commission adopted its Annual Economic Report 1982-83 which it transmitted to the Council of Ministers for adoption, after consultation of the European Parliament and the Economic and Social Committee. The report is accompanied, for information, by an Economic Review which provides factual information on economic developments and outlook. Both documents have been made public under reference number COM(82) 677 final and SEC(82) 1703 respectively, and will be published shortly in European Economy.

### Belgium (B)

21.10 The Banque Nationale lowered the basic discount rate from 12,50% to 12%. The rate for advances on current account was reduced from 13,50% to 13%.

14.10 The Government approved Royal Decrees on measures to encourage rational utilization of energy. Among the new provisions is an increase in the tax allowance on appropriate investment to 35%.

### Denmark (DK)

16.10 'Folketinget' adopts various measures proposed by the government on 5 October:

- Wage and salaries are frozen at their level of 5 October until 1 March 1983. All automatic wage adjustments (i.e. wage indexation, wage drift compensation, etc.) are abolished until January 1985. The government has fixed a 4% guideline for the annual rise in public sector wages and salaries in the next biennial wage agreement and invited the private sector to follow the guideline.
- Dividends fees, etc. to be paid during the next two years should not exceed their level previous to 5 October 1982.
- Gross profits per unit of output applied on 5 October should not be increased in the period until 1 March 1983.
- Cost-of-living adjustment shall not be applied to various social transfers (i.e. unemployment benefits, illness allowances, pensions) from January 1983 to January 1985. But social pensions will be increased by 3% on 1 April 1983 and again on 1 October 1983.
- Wage earners absent due to illness shall not be paid their first day of absence. The period, for which employers are to pay, is extended from 8 weeks to 13 weeks.
- Central government taxation of personal taxable income in 1983 will be 14,4% within the lowest income bracket until DKR 103 200, 28,8% of income in the medium bracket until DKR 172 000, and 39,6% of income beyond that bracket. The tax allowance is fixed at DKR 20 000 and deducted within the lowest bracket. The ceiling on total marginal taxation (i.e. taxes and contributions paid to general government) will be raised to 73%. Further tax concessions of the order of 2,4 mrd DKR in 1983 will depend on compliance with the above mentioned government guidelines for wages.

### Federal Republic of Germany (D)

22.10 The Central Council of the Bundesbank decided on a reduction in the Central bank's lending rates. The discount rate was reduced from 7% to 6%, and the Lombard rate from 8% to 7%.

28.10 The Federal Government agreed to a second supplementary budget for 1982 and to the Federal Budget for 1983. Total expenditure is estimated to increase by 2,9% in 1983 to a level of DM 253 800 million. Net borrowing is estimated at DM 41 600 million.

### Greece (GR)

2.10 The decisions on the arrangements for implementing the law on financial incentives to investment were published. Among other things, they specify the socio-economic, technical and regional criteria for application, and define the concept of 'Greek capital', involving Greek nationals resident abroad, and granting them particularly attractive incentives. In connection with the new law, it has been decided to reinforce the Central Advisory Committee and to organize special training seminars for members of the regional committees to improve efficiency of application of the law.

### France (F)

2.10 The IDI (Institute for Industrial Development) is to inject FF85 000 million into the French car components industry through the agency of the IDICA, one of its subsidiaries.

15.10 The Assemblée Nationale adopted the law on collective negotiations, which stipulates that actual wages and actual working time (number of hours and timetable) must be negotiated annually by branch of activity.

20.10 The Council of Ministers adopted a series of measures to reduce the external trade deficit. The new provisions involve:

- (1) **Energy conservation:** the 1983 budget will include a FF1 000 million investment programme for energy conservation investment in national corporations (savings of 500 000 toe a year are expected); lighting in shops and public buildings at night will be reduced, as will the temperature of the premises;
- (2) **The stimulation of exports:** from 1983, 30% of overheads associated with export transactions will be exempt from tax; the credit insurance arrangements for short-term sales will be improved, and assistance will be provided with financing commercial investment by small and medium-sized firms;

- (3) **The defence of the internal market:** the country of origin of products sold in France must be shown; unfair commercial practices will be controlled, and documents accompanying imported goods must be in French.

20.10 The Council of Ministers adopted a new formula for 'solidarity contracts' concerning the reduction of working hours. These contracts will be signed with firms substantially reducing working hours while maintaining their production capacity, and undertaking either to maintain or to increase their labour force, depending on the branch. The cost of these measures, which has been included in the 1983 budget, is FF12 000 million, corresponding to the recruitment of 70 000 workers. The State aid will be granted for three years from 1 January 1983, and will consist in a premium of FF 1 000 per wage-earner and per hour's reduction in working time.

22.10 The Committee on prices announced the conditions for ending the price freeze. The aim is to limit price increases to a total of 18,8% for 1982 and 1983, with the following differences by sector:

- in industry, the increase authorized is 16% for the two-year, after firms have signed a commitment to combat inflation;
- in the services sector, firms that have increased their prices only slightly in the past may sign moderation agreements similar to those for manufacturing industry; other firms will be subject to controls implemented by ministerial order;
- in distribution, prices cannot rise any faster than industrial prices, and mark-ups will be frozen until the end of 1982 at their level on 15 October; for 1983, distributors must reduce mark-ups, depending on the size of the firm, either by 1% for each type of article or by 2% altogether.

25.10 From 1 November, video recorders must be cleared through customs at Poitiers.

27.10 The state loan for USD4 000 million issued by France was officially signed.

27.10 Civil service salaries will increase by 3% on 1 November 1982 and by 2% on 1 January 1983.

27.10 As a result of tax measures, the prices of petroleum products will increase on 1 November by 2 centimes a litre (in order to finance the special Fund for major works).

### Ireland (IRL)

21.10 The Government published the National Economic Plan 1983-87, entitled 'The Way Forward'. The main thrust of the Plan is to improve the longer term performance of the Irish economy primarily through strict control over public finances and by increasing its competitive strength. In particular:

- (a) **Public finance:** the Current Budget Deficit is to be phased out over four years. Targets are set for the Current Deficit and the Exchequer Borrowing Requirement in each year of the Plan; the emphasis is to be on current expenditure cuts, particularly in public sector pay, and increased or new charges for public services, while the overall tax-take as a percentage of GDP is to fall slightly. Capital expenditure is to be increased but will be made more cost effective.
- (b) **Competitiveness:** Real wages will be reduced, thereby improving competitiveness and boosting exports; the share of profits in GDP will thus be increased contributing to increased investment, output and employment. Moreover, Ireland will strengthen its attractiveness as a location for foreign investment. The current balance should move into a small surplus. More specifically, for 1983, targets have been set for the Current Budget Deficit and the Exchequer Borrowing at 5,5% and 13% of GDP respectively.

### Italy (I)

30.9 The Government approved the Report on economic estimates, and presented it to Parliament. The second part of the Report deals with the draft central government budget for 1983. After stressing the danger of overshooting in public finance, the Government announced its aim of reducing the treasury borrowing requirement in 1983 from a potential LIT100 000 000 million, on the present trend, to LIT60 000 000 million through a series of measures to increase revenue and savings, some of which were adopted in late July and early August. This strict budgetary policy is to be supported by an incomes policy to limit the increase in unit labour costs to 12%. The inflation rate, measured by the implicit GDP price index, would thus be reduced to 13%, but this result implies GDP growth of under 1% and a 1,5% reduction in employment.

After a year's discussions, unions and employers have agreed to start negotiations with a view to moderating wage costs. In principle, the adjustment of the sliding scale of wages and the renewal of collective agreements will be dealt with at the same time.

### Luxembourg (L)

None.

### Netherlands (NL)

14 and 22.10 The Nederlandsche Bank reduced the discount rate from 7% to 6% in two stages. The interest rates for advances and promissory notes were also reduced by one point.

### United Kingdom (UK)

None.

