European Communities

EUROPEAN PARLIAMENT

Working Documents

1981 - 1982

31 March 1981 DOCUMENT 1-84/81

MOTION FOR A RESOLUTION

tabled by Mr de FERRANTI, Mr BALFOUR, Mr HOPPER, Miss FORSTER, Mr PURVIS and Sir Brandon RHYS WILLIAMS

pursuant to Rule 25 of the Rules of Procedure

on resource transfer based on job flow

PE 72.630

English Edition

The European Parliament,

- accepting that reforming the CAP and increasing Community funds will not, on its own, avoid further 'unacceptable situations' and that therefore, the Commission's proposals to the Council in June will have to include a resource transfer mechanism,

- accepting that a new mechanism should cover all sectors of the economy and represent a new framework for the economic and social development of the Community by encouraging growth without inflation and by giving a major impetus to convergance and increased net employment by maintaining the resources of those Member States where mobility measures need to be financed,

- accepting that the standard of living of a Member State will increase if labour mobility is increased, and that this will further improve its potential as an export market for other Member States,

1. recognises that those Member States with effective policies encouraging outflow from the unemployment pool, such as youth employment schemes, aids to small businesses, training and retraining, coupled with policies on the other hand, which ensure the necessary inflow to the labour market, such as adequate redundancy payments and unemployment benefits, and resisting the temptation to maintain unproductive jobs for longer than is socially justified, will enjoy a more rapidly rising standard of living. That by taking the fear out of job changing, economic progress is more easily achieved,

2. recognises that any acceptable scheme needs to be such that those Member States from whom resources will be transferred will be able to assure their taxpayers that there will be a return in the form of increased Community prosperity and an increased market opportunity,

3. PROPOSES that consideration be given to a resource transfer scheme whereby all Member States pay an agreed percentage of VAT into a fund and each Member State with below average GDP per capita will receive from the fund each month a sum proportional to the number of people who have joined the Unemployment Register plus the number of people who left the Register in that month.

Explanatory Memorandum

Job changing is the key to economic development

We no longer live in caves or log cabins, cut our wheat with scythes or go to work on a horse, because of technology. Technology means specialization and continuous adaptation to new specializations and, to be competitive, specialization requires the Community-wide market. It means people changing their jobs and the rate at which it can take place depends, and should depend, on the acceptability to those concerned of the job changing process. Many factors affect the acceptability. The most important perhaps, is whether there is confidence that there are new jobs to go to. The fact that in the United States there are 50% more employed than there were 25 years ago and that 80% of new net jobs come from firms employing fewer than 20 people is helpful but not conclusive. We need to have confidence that as consumer demand of all sorts increases, growth without inflation can take place provided that job mobility is there and that new jobs inevitably arise. Other than confidence as a factor, the level of redundancy payments and unemployment benefit, rehousing opportunities, youth employment schemes, training and retraining, infrastructure and the climate for small business are all important. One of the biggest factors of all that inhibit job changing is the support of uneconomic jobs by the taxpayer and unnecessarily high levels of protection.

The pattern of job changing follows from the European framework in which it is taking place. It is appropriate and necessary for the Community, therefore, to contribute to ensuring that the social consequences are acceptable. Indeed, it was the need to cope with the social problems caused by the flow of jobs out of agriculture and into services and industry that has been the Community's principal challenge. The CAP itself, therefore, as a job changing fund, made and still makes a vital contribution. Today the challenge is increasingly the flow of jobs out of industry and into services and information-based activities mainly organized as small businesses. However, the CAP, covering only one sector of the economy, was bound to unbalance the budget. Only a new policy, specifically aimed at assisting with the social problems caused by job changing, which covers the entire economy can truly balance the budget. Thus the social and, indeed, the other Community funds are important and should expand and must be developed but cannot for some years be sufficient to meet the problem.

A Community framework for National Policies

With 8.0 million unemployed in the Community, the problem is urgent and the largest role in coping with this unacceptable social situation rests inevitably with the member states. Thus, national funds for unemployment benefit, redundancy, youth employment, training and retraining and rehousing are the main ones that affect the individual who is having to change his job or a family looking for new opportunities.

These national programmes also need to be sustained by resources coming from the Community as a whole if the Community market is to return to the 5 to 6% growth rates necessary to reduce unemployment.

Reform of the budget must be aimed at bringing about a return to growth and more employment without the aspects of inflation that lack of job mobility causes. This should be the clear and substantive objective of the Commission's mandate. With this objective those countries and taxpayers who will have to pay to reform the budget will know that their return will come from an expanding market and increased availability of real resources to accomplish Community objectives both in Europe and in the world.

Resource transfer based on job flow

The maintenance of these national programmes for job changing, especially in member states where the money supply is being brought under control by cutting government expenditure, is the way in which this objective could be achieved by transferring resources in accordance with the flow of jobs. That is, in accordance with the number of people entering and leaving the unemployment register each month.

The only way to increase the size of the market and increase real resources is by encouraging specialization and the use of technology and then sustain the social policies that make the consequential job changing acceptable. The rate at which people are joining the unemployment register is a sound indication of part of the expenditure that is likely to be incurred. Known technically as the JOB INFLOW to the register, it is established monthly for every member state.

Resources transferred on the basis of the Job Inflow matches the need for expenditure on unemployment benefit and redundancy. However, a positive policy requires expenditure on youth employment, training, aid to small business, infrastructure, and housing - the so-called supply side of the economy. Here a better measure of the appropriate finance would be to relate it to the results achieved. This could be done by using the figures for the number of people leaving the register, i.e., the JOB OUTFLOW;

To transfer resources on the basis of the absolute level of unemployment (MacDougall's suggestion)[1] or on the basis of GDP/head (Herr Lange and the Budget Committee)[2] can give no reassurance to those who have to pay for the policy that their contribution will result in the restructuring of the recipient countries economy needed to raise that country's standard of living.

The pressures on a member state resulting from membership of the EMS or in the final resort the pressure of the IMF will cause a country to reduce Government expenditure. Resource transfer based on job flow is an insurance policy to maintain Government expenditure on policies that make the job changing essential to coping with the basic problem during such adjustment peiods. The unemployment insurance for the individual introduced by Bismarck in Germany and Lloyd George in the UK, as a state-based scheme is a safety net for the individual who has to cope with finding new employment. The resource transfer based on job flow would be reinsurance for the states at the Community level.

Implementation

VAT is a good basis for financing a resource transfer fund based on job flow. Value added is a measure of real resources in terms of investment and of employees. For the fund to be effective in relation to the task and in relation to the principles of a convergence budget, a VAT rate of between ¼ and ½% would be necessary.

[1] The MacDougall Report 'The role of Public finance in European Integration. EEC Commission 1977

[2] Adopted by the Parliament

Each month as the figures are established and published in the Employment Telegram, payments would be made out of the fund proportionately to a 'Pace of change' index for each member state with below average GDP per head, which would equal, as previously described

The job inflow PLUS the job outflow

Thus all member states pay in on the basis of their means to those member states with below average GDP according to the success of those states' policies for increasing job flow and thereby their standard of living.

Serious problems arise in preparing the figures published in the Employment Telegram. For instance, the 'Casa de Integrazione' in Italy and apprentices looking for jobs in Germany, and to obtain valid figures from Greece will require substantial administrative changes. Unlike the figures for the absolute level of unemployment these problems are not insuperable and the Commission's statistical services could provide the necessary administration. The household surveys currently being undertaken by the Commission could provide an important check on the pace of change indexes as they will be independent of National statistical methods. Included in the appendix are recent figures which are used in Table 1 to illustrate the sort of numbers which would have followed from the operation of the scheme during the last 12 months.

It would, of course, be for the Institutions of the Community to propose and prepare the scheme for decision by the European Council and for it then to be implemented through the existing budgetary procedures.

Table 1 shows the job inflows and outflows to and from the unemployment register in the UK.

The inflow does not change by a large percentage of the total, 330,000 maximum in 1975 and 270,000 minimum in 1973. The total is, however, higher than generally realised, representing 3½ million job changes a year out of a working population of 25 million. The outflow is more stable but has declined slowly during the period.

When the inflow to the register increases, the immediate effect is to increase unemployment benefit payments and redundancy payments. As unemployment rises, schemes such as the youth employment scheme, re-training schemes and social policies to encourage rehousing, all need to be financed often at a time when Government expenditure is being reduced.

It could be envisaged that the member state with the highest GDP per head could also have the highest rate of job flow. The actual figures though, do not support this possibility. It is in the nature of a common market economy and in the development of convergence that the pace of change in the richest states will slow to provide the investment for developing living standards in the poorer states.

It is probable that the figures would show that in 1983 (the earliest this scheme could start) the UK, Italy and Ireland would be net recipients and Germany, France, Benelux and Denmark, net contributors.

By 1985, if UK policies have succeeded, it is probable that the UK would join Germany, France and Benelux as a contributor and then Italy, Ireland and Greece would be the net recipients.

Notes

1. If such a scheme were to be introduced, it could alter the climate in which the Common Agricultural Policy is reviewed. For instance, it could make a bigger percentage of agricultural support paid by member states themselves less unattractive in Community eyes. Indeed, over a number of years this scheme could, in part, compensate member states for the cost of agricultural subsidies, which could be regarded as yet another category of job mobility payment.

2. Convergence would be automatically encouraged by the scheme, provided that Community and national policies encouraged job formation in the new areas of employment growth. Namely, the expanding market in the enlargement countries, new energy sources, small business in servicing and information handling, etc. The scheme would discourage subsidising uneconomic jobs and economies would converge on lower inflation rates.

<u>This in turn will make EMU practical just as EMU itself requires a resource transfer scheme</u>.

3. Nationally, the scheme would involve breaking the 1% VAT limit. However, it is basically an insurance policy not involving <u>any</u> new expenditure by the Community as such. It would instead, underwrite member states' existing expenditure on job mobility. Of course, the Community's total expenditure on job mobility increases as unemployment increases, but the scheme would enable the load to be shared.

	Germany	France	Italy	GD	Holland	Belg	Lux	Denmark	Ireland	Greece
No of people flowing through register	2505.1	2631.5	1702.0	4268.6	495.3	559.2	15.7	650.3	196.9	400 (est)
% share of fund (below av. GDP per head countries only)			25.9	65					3.0	6.1
Receipts from fund			663	1664					77	156
Contributions into fund (¼% VAT)	800	625	325	475	135	110	5	55	20	20 (est)
NET FUND RECEIPTS + AND CONTRIBS -	-800	-625	+338	+1189	-135	-110	-5	-55	+57	+136