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## EMPLOYMENT AND THE ENERGY SITUATION

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### INTRODUCTION

1. During the last months of 1973, international economic relations were over-turned as a result of new policies pursued by the oil-producing states. At first the states introduced restrictions on the output and distribution of oil. Then they increased the prices of their oil export by successive stages. Prices now stand some 180 % above their level in early 1973 although the quantitative restrictions have been largely removed.
2. This has had its effect on the prospects for employment. At first, employment appeared to be threatened by cuts in production resulting from material shortages. Now the threat comes mainly from the impact of oil price increases on the balance of payments of Member States and their world trade partners, on domestic inflation, and on the pattern of internal demand.
3. It is the opinion of the Commission that the unemployment arising from the recent developments could normally be limited to an amount smaller than that observed during recent cyclical fluctuations. Much will depend, however, on the way that the economies react within the next twelve months to the initial shock, and on the manner in which the effects are spread, both as between countries and as between social groups within the Community.
4. If the adverse effects of the crisis are not distributed too unevenly, there could be, after a limited and short-term impact, a rather rapid return to previous levels of growth and employment, although with changes in their structure. If not, Member States and the Community would be exposed to the risk of a cumulative deterioration in their economic situation. This could lengthen considerably the period of adjustment, and result in a longer and more serious period of higher unemployment.

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5. The Commission's report to the Council on the consequences of the fuel crisis for the overall economic situation (January 1974) and its recent communication to the Council on guidelines for economic policy in 1974 have already presented an assessment of the broad economic consequences of the energy crisis. In view of the major concerns arising in the field of employment, an assessment of the outlook in this area was requested. This paper presents such an assessment and identifies actions which the Commission feels should be taken by the Community, National Governments, Trade Unions and Employers. It concentrates mainly on the issues that will arise over the two next years. The Commission intends to prepare a paper on the longer term outlook as and when the trends in employment become more clearly discernible.

#### I. THE EFFECTS ON EMPLOYMENT

6. The new situation facing the European economics is characterized by two factors :

- a substantial deterioration in the terms of trade, meaning that more real resources will have to be exported to pay for the same amount of imports ;
- a marked change in the structure of internal prices, which will result, directly or indirectly, in changes in the pattern of activities and employment within the Community.

7. The major consequences of these changes will be first, a substantial check to the growth of real incomes in the short term; second, a marked change in the pattern of world trade, and of activity and employment within the Community. However, there are good grounds to expect that the underlying trends for growth should not be impaired once the initial shock has been absorbed appropriately. This assessment of the employment outlook will thus concentrate on the immediate impact, on some possible risk over the next two years and on a preliminary outline of some structural changes to be expected.

The initial impact

8. The initial mechanical effect of higher oil prices is to reduce the purchasing power of the Community (the total import bill will be increased by about a quarter). The export of a higher proportion of total Community output in exchange for the same amount of imports means that, in the absence of borrowings from abroad, the Community would have to accommodate a lower rate of activity than was previously forecast.

The first assessment of the Commission in January was made on this basis; it foresaw a reduction of the growth rate of the Community's GNP by some  $1\frac{1}{2}\%$ . On this basis, the volume of employment might fall by some 0,7%. This effect may not be fully apparent in the statistics available during 1974. Unemployment figures - which are the most up-to-date indicators of demand for labour - do not normally increase pro-rata with a decline in employment. Some of the reduction in employment takes the form of reduced hours of work. Moreover, fewer people seek work when there are fewer opportunities for work, and they may not be officially recorded as unemployed. Consequently, increases in overall unemployment rates might be contained to, say, 0,3% or 0,4%.

While the reduction in the purchasing power of the Community has to be faced in any case, the impact of this reduction on employment and activity - as outlined here - can be altered by the interplay between trade and monetary relations and internal economic policies.

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9. It is of serious concern that reductions in the rate of growth of real incomes and further price increases have to be absorbed at a time when inflation has already reached serious proportions. Individual countries have faced similar adverse movements in their terms of trade without a long-term decline in employment levels. However, the pattern of income distribution is already being disrupted by inflation to the cost of the weaker sections of society. If efforts are made - especially by the stronger groups - to maintain past rates of growth of real incomes by demanding higher money incomes, the consequent aggravation of inflationary pressures could only be coped with by measures leading, directly or indirectly, to higher unemployment.

10. The effects of the crisis do not impinge evenly on Member States. This is a result, not only of differences in oil requirements, but of differences in the availability of foreign exchange reserves to meet the balance of payments costs. The impact also depends on the general economic context existing within each country - both its cyclical and structural aspects.

11. As regards the short-term employment outlook, it is possible to distinguish two groups of countries :

- in Germany and the Benelux countries the overall effect of the oil crisis seems to be rather limited : balance of payments prospects allow them to absorb the oil price increases without substantial difficulties in the field of employment.

- there is more concern in Italy, the U.K. and Ireland, where the difficulties resulting from the <sup>energy</sup> situation will be compounded - in different ways for each country - by the initial rates of inflation and the balance of payments situations. France and Denmark face similar preoccupations, but to a lesser extent.

Assessment of further risks in the context of economic interdependence

12. Additional factors will progressively influence economic trends and modify the initial impact. The outlook for the two next years will be essentially determined by the responses of national economies to this impact, and by the interplay of these responses.

13. The risk of a possible drop in public and business confidence (as a result of higher oil prices and of the insecurity caused by the crisis) now seems to have diminished considerably - although it has not been completely eliminated. The most recent data on employment (February in most countries), suggest no significant deterioration although there is a slackening of new recruitments. Consumer demand for durable goods has returned to a more normal pattern after the first shock; attitudes to business investments have also become less uncertain. The high level of public expenditures is a built-in protection against cumulative drops in internal demand; and governments seem adequately equipped to master this type of possible development.

14. Under the present circumstances and as a response to the initial impact, Member States will try to devote a larger share of their total resources to exports in order to finance the higher cost of imports. Investments will have, at least, to be maintained at their previous levels

(and should in fact increase) in order to accommodate the new pattern of activity required. A shift of resources away from consumption and public expenditures is thus required in the short term, but will be difficult to achieve in practice. It is to be feared that competing claims on total resources will come to constitute additional stimuli to the inflationary process.

15. Under these circumstances, two major risks of cumulative deterioration are to be faced in 1974 - 1975. The first is an aggravation of inflation over and above that due to expected prices increases (some 2 - 3 %) resulting from higher oil prices. This would put the rates of inflation in Member States well into double figures; it would worsen the situation for the weaker social categories, would further undermine the role of prices as an instrument of resource allocation and would increase economic and monetary divergences between Member States. Employment would ultimately be hit much more than present estimates allow for.

The second risk is under-bidding in trade. The simplest ways to expand exports and to improve the trade balance may also be the most dangerous ones. All oil-consuming countries are facing the same situation, and 60 to 70 % of each Member State's exports (with the exception of the United Kingdom where the proportion is only about a third) are absorbed by its Community partners. Increasing exports is an adequate response to the crisis if such exports meet demand from new markets; it is not an adequate response if they simply deflect demand from existing markets.

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Changes in the structure of employment

16. The increase in fuel prices will cause substantial changes in the pattern of output and employment. The most obvious changes will take the form of reallocations of production resulting directly from this increase and from the changing trade relations with oil-producing countries.
17. The sectors most adversely affected are those using oil for power and heating; those, such as the motor industry where oil is the fuel used by the final product; or those where oil is an essential raw material, e.g. synthetic fibers. Here higher costs push up prices and reduce demand for the product. Reduced demand, in turn, reduces the demand for labour.
18. On the positive side, new employment opportunities will develop. Demand for products and processes using alternative fuels or raw materials will expand. Higher oil prices make the exploitation of alternative energy sources within the Community's boundaries more attractive. As a result, increased demands for investment goods, such as nuclear plants and natural-gas pipelines, are already emerging.
19. Annex 2 will give some tentative indications as to sectors most likely to be directly affected by the changes in the pattern of activities. It should be stressed however that changes within sectors are bound to be at least as marked as changes between sectors.
20. In the longer term, additional factors of change are likely to emerge: such factors will be determined by the secondary responses of households, industry and Governments. If, for instance, the growth in purchases of automobiles continues to slow down, households may reorient the pattern of their expenditure towards alternative goods or services. Much uncertainty prevails at the present stage as to possible expenditure reallocations of this kind.



21. The trends resulting from such secondary changes are difficult to perceive in the first year. However, after a period of four to five years these secondary changes may become at least as important as the direct changes in determining the pattern of demand for labour.

21 bis. A similar uncertainty currently exists regarding the consequences of higher oil prices for the regional structure of employment. The bulk of the direct effects will doubtless be felt in those sectors located primarily in the more prosperous regions. Nevertheless, it is to be feared that the need to undertake massive investment in favour of substitute products may sometimes operate to the disadvantage of measures of industrial decentralisation.

22. On the whole, studies currently available do not point to a clear pattern of change in the structure of output and employment. Much hope has been expressed that increases in the prices of oil and other commodities might lead to a type of growth less oriented towards material consumption and the waste of raw materials. All indications to date suggest that this process will not be a spontaneous one: any reorientation of growth will depend on the types of policies and incentives used to promote such a reorientation.

23. The problems of attaining full and better employment will not be changed significantly in kind, but their magnitude will be more serious. It is here that vigorous adjustment policies stimulated by support from the Social Fund can help to ensure that change proceeds effectively and with a minimum of individual hardship.

## II. POLICIES TO PROTECT AND PROMOTE EMPLOYMENT

24. Methods for dealing with the employment situation and prospects in 1974 should be put in their proper context. The overriding objectives of short-term economic policies within the Community this year will be to control inflation and, in most countries, to cope with a substantial deterioration of the balance of payments. The Commission wishes to refer to its communication to the Council on guidelines for economic policy in 1974.

25. The outlook in the field of employment does not, at present, warrant actions geared to the stimulation of overall internal demand (except perhaps in Germany and the Benelux countries).

Policies to protect and promote employment should rely on alternative instruments. It is most important that these should be used - and, where necessary, made available. They should serve three major targets:

1. The avoidance of self-defeating policies on trade and competition
2. The spreading of the internal impact
3. The preparation for a new pattern of employment.

A final section will indicate the main areas in which Community action can help national policies to cope with the effects of the crisis on employment.

### Avoiding self-defeating policies on trade and competition

26. The overall assessment of risks presented in part I shows that an important first line of defence lies in the prevention of underbidding actions both within the Community and at world level. A particular responsibility rests upon Member States and on the Community, since their cumulative trade represents more than 30% of total world trade.

27. Resorting to unilateral protectionistic measures, to artificial supports for exports, or to competitive monetary and exchange-rate policies would be of doubtful use; it would result in both compensatory and retaliatory actions by partners, and in a worsened climate for investments.

In this respect, the customs union and the rules of competition are major safeguards against the risk of cumulative deterioration, particularly in the field of employment. Coordination of monetary policies is also of major importance.

28. The Community can also make easier the accelerated adjustment to the new pattern of prices. The availability of a large market may by itself bring a substantial incentive to the search for new types of product; it also facilitates the dissemination of expansionary forces from one country to its neighbours.

## 2. Spreading the internal impact

29. It has been shown that the real threat to employment did not originate in the size of the initial impact, but in its uneven distribution both as between countries and as between various sections of society within each country. The former will be discussed in the appropriate international and Community institutions. The latter is of equal importance.

### a) Work-sharing and prevention of redundancies

30. Firms facing a slackening of their sales have in most cases until now been able to avoid premature redundancies. It will be in the interest of all concerned if this behaviour - normal at the outset of a period of reduced economic activity - is maintained for as long as possible. The consequences of the crisis will not be apparent immediately and some of these consequences may be of an erratic nature. Employers who take an unduly pessimistic view and make workers redundant might be faced before long with the need to re-expand their labour force. The costs of such hirings and firings could be considerable, quite apart from the adverse social effects.

31. Close co-operation between employers and Unions appears indispensable if developments in each sector are to be followed closely and the best method sought in each firm of distributing the burdens resulting from the reduction of activity.

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31. Where dismissals are unavoidable, they should be subject to substantial advance warning and discussed with the trade unions concerned, and with the employment and training agencies. Such advance warning will enable those concerned to explore the possible alternative. In this respect, the proposed Community directive on Mass Dismissals sets out minimum standards.

32. Counselling is of particular importance within both firms and employment agencies at times of change. In the case of large-scale dismissals of persons with specific skills, it can make a substantial contribution to a reduction in the extent of retraining necessary to adapt such skills to new requirements.

b) Public Employment Services

34. In some countries, public employment services have undergone a substantial strengthening in recent years. In others, they need to be updated and re-inforced. Governments should ensure that the necessary resources are made available. Staff training should be developed - in particular to provide a reserve capacity to meet peak demands. Employers should assist by ensuring that the public agencies are informed of all vacancies.

c) Unemployment Insurance

35. Unemployment insurance schemes will ensure that persons made redundant as a result of the crisis will receive some protection. National schemes do not always cover the problems of partial unemployment that may arise as a result of the crisis. Consideration should be given to ensuring that the degree of flexibility in the schemes is appropriate to deal with these problems.

d) Defence of vulnerable groups

36. Four groups in particular may suffer. Firstly, school-leavers may have greater difficulty in finding their first jobs. Secondly, migrant workers are typically employed in unskilled jobs with little security of tenure. Thirdly, older workers, if they lose their jobs, may spend long periods unemployed before finding alternative positions. Fourthly, women's prospects of developing job opportunities may suffer a set-back. The over-riding policy regarding all these vulnerable groups must be to ensure that they do not bear an unfair share of the burdens of re-adjustment.

37. Where school-leavers face increased difficulties in finding employment, Governments should consider the possibilities of increasing educational opportunities and making it more financially attractive for employers to take them on. The priority in this situation must be to ensure that the school-leaver's first experience of the labour market is not one of rejection or dead-end jobs.

38. The prime responsibility for the treatment of migrant workers rests with employers and the Member States. It is for Governments to ensure that all workers currently in their countries are treated equally. Migrants should not be the victim of attempts to "export" unemployment. The energy situation high-lights in particular not only the need, principally, to implement the existing rights of EEC migrants, but also to safeguard the position of non-EEC migrants legally employed when the employment situation worsens. Initiatives for comprehensive social security cover for both groups of migrants should be vigorously supported. The same is true for measures to improve the social infra-structure and housing.

39. For older workers, Governments can consider schemes to give greater security of tenure by making it more expensive in comparison with other workers to dismiss them. Where older workers are to be dismissed, Governments might consider encouraging them to accept premature retirement with pension rights. Such a pension could continue even if the person concerned found a new job.

40. Regarding women's employment, the objective must be to ensure that progress towards greater equality in treatment and opportunities is not set back as a result of the new situation. Some industries which currently employ many women, such as textiles and tourism, may be among the worst affected and particular attention should be given to the provision of vocational guidance and training.

### 3. Preparing for a new pattern of employment

41. The best method of promoting employment consists of orientating it towards activities which will require expansion. Certain of these activities are already identifiable; others will emerge progressively.

Early identification of trends is particularly important in such a situation of change. Developments in the employment situation should be closely monitored to speed up appropriate actions. Forecasting - as distinct from prediction and subject to continuing revision - is also crucial in periods of uncertainty. It can contribute to the process of readjustment if it is coupled with measures to create new jobs through investment incentives and to prepare people to fill them.

42. Vocational and continuous training should be given priority by governments and industry. It is high time that the old image of vocational training as a form of public assistance be discarded. Training is not only an essential basis for active manpower policies designed to cope with the general problem of change. It is also a means of providing greater job satisfaction for the individual.

Governments and Social Partners should make maximum use of the opportunities offered to strengthen and develop their own vocational training efforts to ease the structural impact. In this respect, it is essential that trade unions ensure the co-operation of their members in accepting employees whose new skills and qualifications have been obtained through such training.

#### The Community's role

43. The Community has a substantial role to play in support of the efforts undertaken by Governments, industry and unions to deal with the employment repercussions of the oil crisis. Many of the areas covered by the Social Action Programme are relevant. While this programme is being implemented, the following areas are of particular importance :

#### Monitoring and forecasting

44. The monitoring system on employment trends at Community level should be substantially improved. Exchanges of information and views between national experts on recent and future trends will be accelerated; the Commission, for its part, is ready to discuss material derived with the Social Partners. The monitoring of sectoral developments should receive special priority in view of the difficulties it involves.

45. The present situation makes it all the more important to establish a programme for work on forecasting, as resolved by the Council. The Commission will propose that efforts be concentrated on sectoral breakdowns of macro-economic medium-term projections, on forecasts by level and type of qualification and on disaggregation by age and sex

### Vocational training

46. The Commission considers that the common policy for vocational training, based on the general principles adopted by the Council in 1971, should concentrate on the following practical measures in the context of the employment consequences of the energy situation :

- the assessment of training schemes;
- the assessment of training needs and capabilities especially in the weaker regions of the Community;
- an increase in the supply of appropriately qualified staff;
- exchanges of experience in the field of basic and specific trainings;
- joint development work on teaching methods and techniques particularly in sectors where new types of skill are needed.

The Commission intends to use all the means presently available, especially the Social Fund, to develop practical action along these lines.

The creation of a European Centre for Vocational Training, which has been proposed by the Commission to the Council, in particular constitutes an important Community initiative.

### Migrant workers and free circulation

47. Work is in progress to prepare the Action Programme for migrant workers. In the meantime, it seems appropriate to draw attention to two areas where Community action is already equipped to deal with the present situation.

Regulation 1612/68 on the Free Movement of Labour - besides ensuring the free right of entry and access to work - also states formally the right of dismissed workers to stay in the host country and to receive unemployment and social benefits until they find a new job. Member States state that all necessary measures have been taken to implement fully these clauses. A regular system of reporting has been established; the Commission is following the situation closely.



48. In addition, the arrangements between national employment services for matching the supply and demand for labour will be checked with the users. The improvement in national and Community wide systems for the placement of labour should contribute substantially to the better matching between demand and supply for labour. The Commission intends to re-inforce the effectiveness of the European Office of Coordination (BECODE) for this purpose.

#### Social Fund

49. The resources of the Community's new Social Fund are available to assist in the development of such policies. The new Fund can encompass demands for assistance specifically resulting from the oil crisis. Procedures have been adjusted and assistance is granted in advance.

The Commission feels that policy concerning the use of Social Fund resources should take account of the new situation created by the increase of oil prices.

Requests for re-training operations should therefore - within existing regulations, procedures and resources - be oriented in particular towards activities of an oil substituting or of an oil saving character. Requests for re-training operations apt to alleviate the consequences of mass dismissals should also be considered with particular attention.

Some priority should also be given - in the overall allocation of Social Fund resources - to those regions most affected by the impact of the energy situation; such priority should however be considered in relation to the targets and methods defined by the present regulations.

50. The changes which the new situation demands raise the question of the strengthening of the resources of the Social Fund as well as the adjustment of its mode of operation.

## CONCLUSIONS

The situation created by the new energy outlook poses important problems for the maintenance of full employment. However, the Commission is convinced that, by appropriate policies, unemployment may be contained within the limits of normal fluctuations.

The list of measures proposed in this context is neither new nor exhaustive. However, taken as a whole, these measures would not only mitigate the harmful effects of the energy crisis but would also encourage the development of employment policy within the Community.

In terms of economic and monetary policy the issue is the avoidance of disparate measures leading to chain reactions and the reestablishment of coordination in the Community. The distribution of national resources must be more in favour of exports which should be directed preferably towards the development of new markets rather than the conquest of established markets. In terms of social policy it will be necessary to strengthen the placement, guidance and training services; furthermore special measures will have to be adopted to protect the standard of living of the most vulnerable social groups. Coordination between employers and workers must be strengthened, with a special view to avoiding lay-offs, and when these become inevitable, to facilitating the reemployment and the readaptation of workers, and to distributing more evenly the consequences of the slackening in the growth of real income.

The present powers of the Community can support these efforts, especially as concerns free movement, training and grants. The interventions of the Social Fund should be more geared to meeting the new problems raised by the energy situation.

Finally, the Community must formulate an attitude on the more long term problems raised by the increase in the price of energy. How can it bring about, under the best conditions, a new international division of labour? How can it promote among the Member States the emergence of a new employment structure which can adapt to internal and external demands? How can it further develop the contribution of the Community to the current efforts in the Member States to bring about better employment and a better distribution of wealth? Reflections and actions which will be elaborated in the coming years must be a response to these problems.