

SOCIAL EUROPE

**The social aspects
of the internal market**

Volume II

SUPPLEMENT 7/89



COMMISSION OF THE EUROPEAN COMMUNITIES

**DIRECTORATE GENERAL FOR EMPLOYMENT,
SOCIAL AFFAIRS AND EDUCATION**

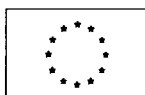
SOCIAL EUROPE

**The social aspects
of the internal market**

Volume II

**Synthesis of the first six seminars
which were held in Brussels
in November/December 1987 and January, April,
May and June 1988**

SUPPLEMENT 7/89



COMMISSION OF THE EUROPEAN COMMUNITIES

**DIRECTORATE-GENERAL FOR EMPLOYMENT,
INDUSTRIAL RELATIONS AND SOCIAL AFFAIRS**

This publication is also available in the following languages:

DE ISBN 92-826-0893-X

FR ISBN 92-826-0895-6

The information contained in this publication does not necessarily reflect either the position or views of the Commission of the European Communities.

Luxembourg, Office for Official Publications of the European Communities, 1989

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Catalogue number: CE-NC-89-007-EN-C

ISBN 92-826-0894-8

Printed in Belgium

FOREWORD

The European Commission's Directorate-General for Employment, Industrial Relations and Social Affairs has taken the initiative of organising a series of twelve seminars analysing and projecting the social aspects of the single European market. The seminars have been running for over a year now and are designed as a forum for discussion reaching beyond the institutional arena. They aim to enlarge the debate on the "social dimension", vital for the future cohesion of the Community.

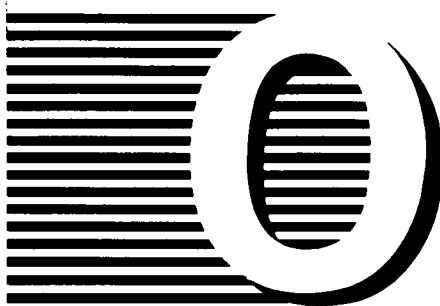
The circulation of the summary reports on each of these seminars is intended to enable full benefit to be drawn from these consultations. It must be emphasised that *the contents of this publication do not necessarily reflect the opinions of the Commission.*

This "Social Europe" supplement contains summary reports on the first six seminars. It therefore includes the three reports which were published in supplement 7/88 under the title "The Social Aspects of the Internal Market, volume I" but in an updated form incorporating additional information.

Summary reports on the six other seminars will be published in a forthcoming Social Europe supplement.

The Commission of the European Communities hopes that these publications will, by making a broad range of information, ideas and proposals available, ensure that the importance of the social aspects of the internal market for the future cohesion of the Community are taken fully into account.

COMMISSION OF THE EUROPEAN COMMUNITIES / DG V



INTRODUCTION



SOCIAL ASPECTS OF THE INTERNAL MARKET

Synopsis of the seminars organised by the Directorate-General V of the European Commission, Employment Policy Division

INTRODUCTORY REMARKS

The Community's commitment to ensuring that social concerns are not overlooked in the internal market was renewed at the June 1988 European Council in Hanover, which stated that a "social dimension" would be a determining factor in the success of the single market.

Jacques Delors, President of the European Commission, fully shares this commitment and has, on a number of occasions, made proposals on the social dimension of the internal market. He has notably highlighted the need to:

- * develop structural policies reinforcing the regional cohesion of Europe;
- * set up company statutes governed by European law and allowing for a degree of worker participation;
- * establish a Community Charter of Basic Social Rights;
- * continue the social dialogue;
- * harmonise upwards health, safety and hygiene conditions in the workplace.

Further proposals were made in a working document on the social dimension of the internal market, adopted by the Commission on September 14, 1988 (1).

There has been considerable reflection on how exactly to achieve a "social dimension" given the complexity and variety characteristic of national social policies.

The seminars, open to a wide range of social and economic actors in the Community, were therefore organised to give pointers on this sensitive issue.

¹ Research into this matter was conducted by the Commission's services. A report on their findings, entitled "The Social Dimension of the Internal Market", was produced by the CEC, DG V and published in 1988 in a special issue of the review "Social Europe".



It is becoming increasingly obvious that the Single Market project will not succeed unless due attention is paid to related social aspects.

A. WHO TAKES PART IN THE SEMINARS?

University experts, senior national and Community officials, political figures and labour representatives from professional or trade union organisations take part in the seminars.

B. WHAT ARE THEY AIMING TO ACHIEVE?

The completion of the Single Market will be the high point of European affairs for the next decade. Although the Community is thus entering a decisive phase, the general shape and content of labour and social policies in both the medium- and long-term have yet to be defined.

- * Means of analysing, tackling and assessing the problems which will inevitably arise in the harmonisation of social policies are at present extremely inadequate. The Community must therefore rapidly equip itself with tools to enable appraisal of the scale of the difficulties.

- * The Commission's aim, in establishing debate between a broad range of participants from different backgrounds, is to favour the identification of the shape which emerging social policies must take. This task is less complicated in such seminars than in "official negotiations". They can therefore provide precious signposts for future negotiations.

C. AROUND WHICH ISSUES DO DISCUSSIONS REVOLVE?

Three main issues underlie the discussions:

- * determination of the extent to which the four basic freedoms of movement - persons, goods, services and capital - must permeate European society for a frontier-free Europe to be a reality.

- * study of an analytical framework covering:

- the social groups or sections of the population which will be most affected by the changes inherent in the creation of a Single Market: young people, the long-term unemployed, women, poor people, old people, migrant workers, consumers, families.

- the qualitative and quantitative impact on employment (types and terms).

- regional, local and sectoral aspects (including company form).

- * focus on possible proposals for medium- and long-term Community policies. These can cover harmonisation measures, convergence and coordination objectives, financial transfers, information exchanges and so on.



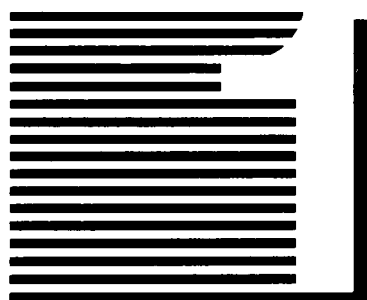
D. TOPICS DISCUSSED AT THE VARIOUS SEMINARS

The series of seminars began in November 1987 and will run throughout the first half of 1989. Their organisation has been entrusted by the DG V to the private association FERE-Consultants. The series includes twelve meetings, dealing respectively with the following themes:

1. Two-dimensional Community cohesion: economic and social (29/4/88)
2. Geographical mobility within the Community (8/12/87)
3. Social policy and the dynamics of local development (19/11/87)
4. New occupations and qualifications (24/6/88)
5. The appropriateness of a platform of basic social rights within the Community (13/1/88)
6. Undeclared work: fraud or the ultimate form of flexibility? (31/5/88)
7. Social security protection and the internal market (27/10/88)
8. Industrial relations at European level (25/11/88)
9. Education and training: contribution to the cohesion of the internal market (14/12/88)
10. Specific policies in favour of targeted social groups (24/2/89)
11. Specific policies in favour of balanced regional development (28/4/89)
12. The link between macro- and micro-economic policies for employment development (12/5/89).

The last three seminars, scheduled for the first half of 1989, will select and group the proposals and guidelines which have emerged from the first nine meetings.

COMMISSION OF THE EUROPEAN COMMUNITIES / DG V



TWO-DIMENSIONAL COMMUNITY COHESION: ECONOMIC AND SOCIAL



CONTENTS

SYNOPSIS

I. THE CONTEXT

1. UNEMPLOYMENT: A DETERMINANT ECONOMIC FACTOR
2. THE SOCIAL DIVIDE
3. SOCIAL POLICY STRUGGLING TO KEEP UP THE PACE

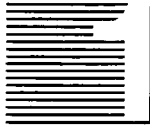
II. THE IMPACT OF THE INTERNAL MARKET

A CATALYST FOR GROWTH AND CHANGE?

1. GROWTH AND CHANGE STIMULATOR
2. THE ECONOMIC PERSPECTIVE
3. THE SOCIAL PERSPECTIVE
 - A. TEMPORARY EVOLUTION: THE J-CURVE
 - B. HOW WILL THE BENEFITS OF 1992 BE SPREAD?
 - C. CAN THE SOCIAL DIMENSION BE EMBRACED IN ALL ITS COMPLEXITY?

III. GUIDELINES AND PROPOSALS

1. COHESION IN THE COMMUNITY HINGES UPON SOCIAL DIMENSION
2. THE COMMISSION'S PRIORITIES
 - A. IDENTIFICATION OF ACTION NEEDED
 - B. STIMULATING DIALOGUE



SYNOPSIS

The scale of unemployment in Europe is the first matter which must be given consideration when planning a social dimension to the internal market. This phenomenon forms the backdrop to social policy in all the Member States.

The structural nature of this employment crisis has led to the emergence of a social divide between wage-earners and those who, due to their jobless status, are thrust into poverty on the fringes of society. In such a situation, the social policies traditionally pursued throughout Europe are seriously inadequate.

The liberalisation of trade and the free movement of persons will be given fresh impetus by the extension of the Single Market. The direct, immediate, indirect and long-term effects of this extension must be measured in both social and economic terms. As regards employment and social impact, two types of evolution are probable:

- out-of-step evolution of employment, where the negative effects of restructuring are felt well before the positive effects.
- accentuation of certain imbalances in income distribution between social groups and regions.

Policy guidelines and proposals for the action of the European Commission cannot ignore these social aspects if the internal market is to enjoy the cohesion espoused as one of the aims of the completion process.

In this connection, the Commission's first step should be to identify areas where action is required.

Secondly, it should encourage dialogue between political and social actors.



I. THE CONTEXT

1. UNEMPLOYMENT: A DETERMINANT ECONOMIC FACTOR

The social climate in which the Community is preparing to complete its Single Market is characterised first and foremost by very high and persistent unemployment.

While it is true that in the last three years, the employment situation has picked up somewhat and that this has been reflected by a slight change in direction of the unemployment figures, new job growth is at too slow a rate to shake the market out of its stupor. Moreover, there is a great deal of "hidden" unemployment, with the people in work to population of working age ratio standing at 57% in Europe, compared with 70% for Japan.

The high level of unemployment which has afflicted the entire Community is the result of two factors:

- * The European economy has experienced a long period of weak and unstable growth and has been highly sensitive to imbalances on the world market.
- * These economic factors have been compounded by structural causes, such as demographic evolution, the rise in the number of women in the employment market, the displacement of economic activities towards the service sector, technological changes, continual improvement in work productivity (linked to a relative increase in the cost of labour in relation to the cost of capital).

Inflexibility of the labour market often stands accused as another such structural problem. However, some countries, such as Sweden, have been able to avoid high unemployment despite a rigid labour market. This has been achieved through forward management and well-designed industrial policies.

2. DISTORTION WITHIN A DIVIDED SOCIETY

European economies have therefore been under pressure from various sources for a number of years now. Employment maintenance policies have frequently been applied in an attempt to halt unemployment growth. One consequence of this has been a trend towards contraction of job supply, leading to a division of the working population into four distinct groups:

- people with a stable and well-paid job;
- people with "unconventional" jobs, characterised by instability, low social security cover and poor pay;
- the unemployed and those excluded from the employment market;



- non-working members of the population.

It is in fact possible to make a broad distinction between groups on the basis of one single criterion: income. On one side of this demarcation line are those in work (including undeclared work) and enjoying an income. On the other side, poverty and exclusion reign and the only income is provided by transfer or redistribution mechanisms. The ranks of this latter category are tending to grow.

The proportions taken on by long-term or very long-term unemployment (respectively 50% and 30% of unemployment in the Community) are eloquent. Youth unemployment, at 37% of the total, is also giving cause for concern. Generally speaking, women tend to be more prone to unemployment than men.

From a social viewpoint, this divide gives rise to serious tensions, prompted by frustration and poor training or general education. It can culminate in violence.

3. SOCIAL POLICY STRUGGLING TO KEEP UP THE PACE

Social policy in the Member States has not evolved in step with this social divide. Although policies vary slightly from country to country, the central aim in all cases is still income redistribution and joint shouldering of responsibilities.

However, there are two major curbs upon action in the social realm:

- * first of all, needs are growing continually due to unemployment (particularly long-term unemployment), new poverty and the ageing of the population. At the same time, social policy budgets are stagnating.

- * secondly, the measures implemented in the framework of social policies are increasingly out of step with economic, social and cultural evolution.

Governments are consequently tempted to make social policies more efficient, to the detriment of their social solidarity function. Both are vital ingredients of social policy. Social policy can only re-distribute income if the resources exist. And a society cannot generate wealth without order and social cohesion.



**THE COMMUNITY'S
ACTION PROGRAMME
IN FAVOUR OF
THE LONG-TERM UNEMPLOYED**

On December 1, 1987, the Council of Ministers called upon the European Commission to propose an Action Programme which would identify and circulate information on the most positive national measures in favour of the long-term unemployed. The Commission's research in this area will be used to define a Community approach to the problem.

The Commission has, since December 1988, been providing support for the creation and operation of a European network of projects, initiatives and programmes in the Member States and in favour of the long-term unemployed. The network gives those active in this field access to expertise and information and provides them with a European platform for their work. The Programme processes information on the activities of local, regional and national authorities throughout the Community into "know-how" on how to alleviate long-term unemployment and "products" which can be put to use both by those in the field and by political decision-makers.

The Action Programme is being run by the Centre for Employment Initiatives (network creation and promotion) and by PA Cambridge Economic Consultants (assessment and implementation of coordinated research at Community level), in collaboration with the relevant services of the EC Commission.

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II. THE IMPACT OF THE INTERNAL MARKET

1. GROWTH AND CHANGE STIMULATOR

The removal of barriers to trade and the attainment of freedom of movement in the four domains - goods, services, capital and persons - will form the back-bone of the internal market.

Evolution in this direction will spark off an economic recovery from within and will accentuate the need to:

- * reinforce economic policy cooperation, with a consolidated European monetary system
- * change the rigid and defensive approach to the growing social divide.

Social and political partners throughout the Community have demonstrated from their outset their firm support for the Single Market plan and their understanding of its potential impact and timeliness.

Despite this support in principle, reservations appear when the time comes to take the axe to protectionist obstacles. For the plan to be successful, therefore, concrete proof of the potential benefits which will be opened up by a large European market is indispensable. It was with this in mind that the Commission of the European Communities commissioned the "Cecchini" report, the aim of which was to spotlight the "Cost of Non-Europe" (1).

2. THE ECONOMIC PERSPECTIVE

In the economic sphere, the completion of the internal market will have three types of effect, all connected with prices or costs:

- * First of all, there will be direct and immediate effects arising from the application of various Directives. Changes in the behaviour of individuals will have no bearing upon this. For example, costs will be reduced by the abolition of customs controls.

¹ This report was published under the title "The economics of 1992: an assessment of the potential economic effects of completing the internal market of the European Community" in the review "European Economy" edited by the CEC, DG II, N 35, March 1988.



* Secondly, there will be direct but delayed effects. They will be the direct consequence of measures adopted, the time factor reflecting the gradual adaptation of economic operators to new situations. For example, the removal of technical barriers will stimulate competition, which will eventually result in adjustment of margins.

* Finally, indirect, dynamic effects must be considered. They imply changes in individual behaviour. For example, lower costs will lead to changes in intra-Community trade volumes and distribution, giving rise to specialisation and concentration of certain activities (which will in turn affect prices).

In the long-term, lower costs and prices will inevitably raise real incomes and stimulate additional demand for goods and services. The resources saved can be used to satisfy this demand.

The report on the "Cost of Non-Europe" predicted that the completion of the internal market would boost the Community's Gross Domestic Product by 4.5%, precisely through better distribution of production resources.

The report further predicted that completion of the internal market would initially create 1.8 million new jobs, i.e. a rise of 1.5%. The relative modesty of this rate is due to the fact that implementation of the "White Paper" (1) first and foremost a supply policy, designed to improve resource distribution.

Moreover, the growth of the European economy induced by the creation of a large European market will favourably influence national finances. According to the same report, if this budgetary bonus is put to, reviving national economies, thus enhancing the investment climate, a further 3 to 4 million jobs could be created.

Using this macro-economic approach, the results of which are consistent, the opportunities which could be created by a single market can be demonstrated. However, if they are to become a reality, various pre-conditions must be satisfied, such as reinforced competition policy and the alignment of indirect taxation among the Member States.

3. THE SOCIAL PERSPECTIVE

The report on the "Cost of Non-Europe" and other such economic studies can perhaps be criticised for viewing employment and social policy merely as an "adjustment variable". An attempt should in fact be made to assess with greater precision the impact of 1992 on certain regions and socio-professional groups, which risk carrying a disproportionate burden of the adjustment process.

1 The "White Paper" is the name given to the document listing the 300 Directives which must be adopted by the end of 1992 in order to complete the internal market.



The completion of the internal market may have localised negative effects in the short- or medium-term. Customs staff are a prime example.

Cheaper credit following the liberalisation of capital movements is likely to give the "capital" factor the edge over the "labour" factor. The "supply effect" mentioned above (restructuring of sectors, economies of scale, company mergers, etc,...) implies productivity gains. There is therefore a possibility, all other factors remaining constant, that there may be a drop in employment before the positive effects are felt.

This means that a Single Market could give rise to two types of inconvenience:

- * first of all, a "J-curve" type evolution of employment, where there will be a temporary worsening followed by recovery.
- * secondly, an accentuation in the imbalance of income distribution between social groups and between regions.

A. Temporary evolution: a "J-curve"

In the social sphere, the impact of 1992 will be measurable in employment-adaptability terms. Again, there will be three types of consequences:

- * direct and immediate effects: customs staff are, as stated above, the prime example;
- * delayed direct effects, arising from the readjustment of trade and production. Depending on whether this is viewed in terms of "economies of scale" or of "comparative advantages", two types of economic reorganisation, whose social impact would be different, are foreseeable (see box).

ECONOMIES OF SCALE AND COMPARATIVE ADVANTAGES

The recovery in intra-industrial trade prompted by economies of scale and the merging of companies attributable to the internal market will force adaptation of the labour force. In certain sectors and regions, demand will notably depend on the flexibility of hours worked and the take-up of production capacity. There will therefore be both qualitative (new forms of work flexibility, new qualifications, etc) and quantitative effects.

However, the expansion of inter-industry trade stimulated by restructuring of production in line with the respective comparative advantages of the Community's regions within the internal market will have even greater impact. Patches of temporary unemployment could result from the "delocalisation" of companies, given the regional heterogeneity which presently exists within the Community.



* Finally, there will be indirect dynamic effects, prompted by the injection given to endogenous growth by better resource allocation. At this stage, the internal market will become a source of job creation.

The benefits of the internal market will, however, only be felt in the long term and there may be initial negative impact on employment, in the form of a J-curve. The risk will be particularly large if the Community's external growth remains weak. Nevertheless, if the internal market is not completed, although the Community would escape the short- and medium-term worsening of its employment position, in the long-term, the negative balance of "Non-Europe" would begin to bite.

B. How will the benefits of 1992 be spread?

The question of how the benefits of 1992 will be spread is the second and perhaps most important of the social issues raised by the Single Market plan. There will have to be a distribution of the advantages and costs of 1992 between regions, companies operating in the same sector, large businesses and SMEs, different employment types and social groups.

a. Europe's regions furnish the most pertinent example of the types of difficulties which must be faced. They will probably be split into two categories, one enjoying cumulative growth and the other inversely proportional decline.

The reasons behind an uneven spread of growth gains between regions are to be sought in existing differences between development conditions and ways in which social policy is managed. The most striking differences between regions exist in the following fields:

- . economic conditions (differences in company size, infrastructure,...)
- . work characteristics (differences in labour law, contract forms, labour costs, training levels,...)
- . institutional features (degree of involvement of the State and social partners in the definition and implementation of social policies)
- . income redistribution mechanisms and the cover provided for people without income.

b. It is worthwhile estimating the economic gains of a large internal market. Certain forecasts have been rather alarming. However, fears were dispelled somewhat by the European Commission's report on the "Social Dimension of the Internal Market" (See the review "Social Europe", special issue, 1988, CEC DG V). This report did however reveal that 50% of industrial employment was in structurally sensitive sectors which will probably feel the pinch.

C. Can the social dimension be embraced in all its complexity?

The global volume of employment and its distribution are not the only variables which must be taken into account when assessing the social policy consequences of an internal market. In the same report on the "Social Dimension of the Internal Market", the Commission states that analysis of the



social impact of 1992 must cover three aspects:

- * effective achievement of free movement of persons within the Community
- * the social consequences of the general provisions taken to complete the internal market (standards, company law and so on)
- * anticipation of social changes which will be brought about or accelerated by the Single Market and measures to alleviate their effects.

The "social dimension" is in fact a highly complex concept, covering such matters as training, health care, safety and mobility.

The complexity of the social dimension is heightened by the fact that it will not be easy to pinpoint changes directly attributable to the single market.

Many of the economic and social changes which will take place in the Community during the next decade will be the work of existing factors, unconnected with the Single Market plan. 1992 will merely be the icing on the cake.

The "social dimension" is a many-sided affair, covering a range of employment factors:

- * employment volume and matters which influence it (including business creation, local development, macro-economic policies and forward management)
- * geographical distribution of employment
- * population group distribution (women, young people, long-term unemployed, groups excluded from the employment market)
- * employment types (hours worked, contract type,...)
- * tasks and work fields (in connection with training)
- * health and safety aspects
- * the free movement of persons and the creation of a European market with full worker mobility (employees, self-employed, those out of work...)
- * industrial democracy (information, dialogue,...)

Moreover, the social dimension action umbrella covers a wide range of activities:

- * harmonisation of legislative procedures
- * harmonisation of labour agreements (extension of collective agreements, establishment of "compatible" labour agreements at European level,...)
- * convergence processes, which are the driving force and main objective of social dialogue
- * governmental cooperation (Resolutions)
- * financial transfers (European Social Fund/Regional Fund/FEOGA)
- * information exchanges (research, creation of "observation posts"...))



**1992:
REFORM OF
THE STRUCTURAL FUNDS**

The Single European Act emphasised that stronger economic and social cohesion within the Community is vital in the countdown to the 1992 Single Market. In order to achieve this, the Structural Funds have been reformed and their sights re-set on this objective.

The Community's three separate financial instruments - the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) - have therefore been called upon to intensify their social activities, in both the regional and local framework.

The scope of the reform launched in this connection is financially and strategically vast:

* The Council has already decided to double the Fund's budgetary allocation by the target date for completion of the Single Market. Funding will therefore rise from 7 billion Ecus at present to 14 billion in 1992.

* activities will be targeted on five objectives, reflecting the main barriers to improved cohesion. These are:

- development of structurally backward regions,
- redevelopment of regions in industrial decline,
- fighting long-term unemployment,
- assistance for the recruitment of young people,
- adaptation of agricultural structure and development of rural areas.

* the efficiency and impact of the Funds' activities will be improved through the introduction of a new approach revolving around four main principles:

- complementarity, namely the linking of Community action to that at national level
- partnership: at every implementation stage, beneficiaries must be actively involved and coordinated
- programming: activities should form part of sufficiently wide-ranging multiannual programmes, rather than consisting of on-off projects.
- integration: maximum efficiency should be attained through matching activity type, the aid from which they benefit and the partners who can play a dynamic role.



III. GUIDELINES AND PROPOSALS

1. COHESION IN THE COMMUNITY HINGES UPON SOCIAL DIMENSION

Awareness of the need for a social dimension to the internal market is spreading among political figures and social and economic operators. A Single Market within Europe will accelerate social changes already underway, such as the growing predominance of the service sector, heightened demand for qualified workers and new forms of work organisation.

In 1992, it will become plain where the economic and social weaknesses of Europe and of its regions lie. There is a risk that existing inequalities will worsen. As a consequence, accompanying measures maintaining and strengthening economic and social cohesion are indispensable.

The legal foundation for such measures was provided by the Single European Act, which stated that the need for cohesion must not be overlooked. Cohesion, perceived as a levelling upwards, is the cornerstone of a European social model in which "solidarity" is a key concept.

The need to counter the negative social impact of the internal market is not the only argument in favour of a social dimension. It is essential to ensure that full benefit be drawn from the Single Market and is even a prerequisite for its success:

A. Behavioural patterns will be altered by the manner in which the gains of the internal market are spread across regions and through time. Social changes must therefore be anticipated and responded to correctly.

Medium-term prospects of an improved economic climate for society as a whole are not enough; each member of society must be able to claim a legitimate share of the benefits. If there is a collective positive perception of the Single Market, then there will be a change of mentality for the better. An opportunity will therefore be created for evolution of labour market management policies from a purely defensive stance of "employment maintenance" to an offensive one of job creation. Measures not tolerable in a situation of economic stagnation or downturn are possible in a growth situation.

B. In view of the risk of a temporary rise in unemployment due to company merger and delocalisation, coordinated and timely action by the full spectrum of social partners could take the sting out of restructuring. In the framework of this essential dialogue, social acceptance of change supposes reciprocal admission of the limits to this acceptance.



PERCEPTIONS OF THE SOCIAL DIMENSION

* The southern Member States are generally anxious to ensure that harmonisation policy (implying higher standards) does not lead to worsening unemployment, which is already very high compared with the rest of Europe.

* Some Member States, for historical or cultural reasons, have traditionally preferred to avoid legislation in the social sphere, leaving its regulation to other forces.

* Organisations representing workers have called for a minimum "platform" of social regulations so as to avoid levelling downwards in countries offering the highest level of social protection. They have emphasised that the Single Market plan must be accompanied by a strategy of economic renewal, forward planning and improved education and training.

Workers' organisations have also put in a claim for a 35-hour week, with salary compensation, and the setting of certain limits on work flexibility, although they are not unanimous on this point. A number of demands for greater worker participation have also been made.

* The employers are for their part worried that Europe spend the gains of the Single Market before it has earned them. Their preference goes to action which can facilitate change rather than pose a barrier to it. They support education and training programmes, feeling that these can forge a new generation of "Euro-workers" and "Euro-managers".

There is general support among the employers for decentralisation and a certain distrust of decisions "taken by Brussels". That said, the Community's work to harmonise certain social norms is greatly appreciated. The employers emphasise, however, that alignment must be on "best practices". Standardisation would in fact generate considerable savings for companies, which are becoming increasingly international and have to manage their personnel in an international context.



Moreover, management of the impact of regional redistribution of production, employment and income will help prevent drag on the completion of the Single Market or on essential restructuring triggered by other factors.

C. Companies, and more specifically workers, will have to adapt considerably if the positive indirect effects of 1992 are to be exploited to the full. This is a question of training, professional and geographical mobility and general flexibility.

The 1992 Single Market cannot and will not be a success without allowance for these aspects.

EUROPEAN COMMISSION WORK ON THE SOCIAL DIMENSION

In addition to this series of seminars, the Commission's work on pinpointing the social dimension of 1992 has included the following steps:

- * The deliberations of the Interservice Group between July 1987 and January 1988, which produced the report on the "Social Dimension of the Internal Market". It covered three major areas:

- the free movement of persons
- identification of "sensitive" areas and sectors
- appraisal of the future role of labour relations and the legislative embodiment of this.

The report suggests an action programme more closely targeted on the short term.

- * Over forty studies on issues directly or indirectly linked to the social dimension of the internal market have been completed, are underway or on the drawing board in the Commission's various services.

- * A discussion paper presented by Vice-President of the Commission, Manuel Marin, providing a starting point for consultations with economic and social circles. It identifies measurement methods and instruments quantifying the need for a social dimension and contains a list of activities for 1988 onwards.



2. THE COMMISSION'S PRIORITIES

A. IDENTIFICATION OF ACTION NEEDED

Analysis of all available elements suggests that the Single Market project demands full-blown revision of the Community's Social Policy. The establishment of a medium- and long-term programme would appear to be in order. Before deciding upon the content of this, priorities, possible developments and needs must be defined, in light of the complex factors determining the social aspects of 1992. The Commission has launched a major exchange of ideas, information and concerns with this aim in mind (see box).

B. STIMULATING DIALOGUE

The Community's second task is to stimulate dialogue between political and social partners. Although there now appears to be general consensus on the need for a social dimension to the internal market, perceptions of the form which it should take vary considerably. A sample of views is given in the box below.

Dialogue is therefore necessary in order to bring viewpoints closer together. One of the central objectives of this series of seminars is to provide food for thought in this dialogue.

COMMISSION OF THE EUROPEAN COMMUNITIES / DGV



GEOGRAPHICAL MOBILITY AND ITS SOCIAL IMPLICATIONS



CONTENTS

I. THE CONTEXT

1. PAST TO PRESENT: TRADITION AND CHANGE
2. SOUTH-NORTH FLOW HALTED: AN EXPLANATION OF THE CAUSES
3. WEAKENED MOBILITY IN NORTHERN EUROPE

II. THE IMPACT OF THE INTERNAL MARKET

1. NEW MOBILITY FACTORS: TECHNOLOGY TOPS THE LIST
2. UNEMPLOYMENT AT HOME OR THE GREAT UNKNOWN

III. GUIDELINES AND PROPOSALS

1. REGULATION OF MIGRATORY MECHANISMS
2. POLICY OPTIONS
 - A. DEVELOPMENT OF FRONTIER-ZONE POLICY
 - B. BALANCING OUT THE NORTH-SOUTH BRAIN DRAIN
 - C. DEFINING COMMUNITY POLICY ON THIRD WORLD IMMIGRATION
 - D. CHECKING THE IMPACT OF STANDARDS HARMONISATION
 - E. BETTER EDUCATION AND TRAINING
 - F. GROUNDWORK FOR MOBILITY WITHIN THE PROFESSIONS
 - G. BETTER UNDERSTANDING OF MOBILITY



SYNOPSIS

The Single Market will undoubtedly change the shape of worker mobility within the Community. Heterogeneous national legislation is still the main determinant of labour market conditions. The influence of traditional intra-European emigration from South to North has however now diminished, with emigrants dwindling to a mere trickle.

At present, there would appear to be few mobility opportunities for low-qualified workers. However, among workers with suitable training and qualifications, mobility is becoming more and more pronounced.

There is a risk that the European labour market will become increasingly polarised between economically-weak regions and those harnessing all the economic power of technologically-adept high-flyers.

Worker ability to move with the jobs within Europe must therefore be given serious consideration in the process of completing the Single Market. There are a multitude of ideas on how the Community could reinforce the free movement of persons. Several of them are discussed in this paper.



I. THE CONTEXT

1. PAST TO PRESENT: TRADITION AND CHANGE

National legislation has always left a firm imprint on the European employment market. Its heterogeneous nature has influenced European migratory flows, which have their roots in factors dating back to long before the construction of the Community.

In the past, two major trends characterised geographical mobility within Europe:

- * The bulk of migration was transnational and originated in the South of Europe, moving to the North. Spain, Greece, Portugal and Southern Italy were for many years the source of massive emigration towards more central regions of Europe, such as Northern Italy, France, Germany and the Benelux countries.

- * Excepting in border areas, which are in a rather special situation, professional mobility within the Northern European countries was restricted almost exclusively to intra-national movements (apart from large numbers of Irish "crossing the water" to Great Britain).

In all instances, the underlying cause of emigration was gradual transformation of the means of production. For example, as agricultural labour requirements fell, workers moved to what were then expanding industrial centres.

However, this traditional pattern no longer holds true in the modern-day Community. Migratory flows took on a new face at the beginning of the seventies. Traditional flows have slowed and their composition changed. In some cases, the tide has even turned. The very nature of migration is changing.

2. SOUTH-NORTH FLOW HALTED: AN EXPLANATION OF THE CAUSES

The first noteworthy point is that traditional emigration from the Southern Member States (Italy, Greece, Spain, Portugal) to centres of heavy industry in the North has all but ceased. It drew to a gradual halt throughout the post-war period and in some cases significant numbers of migrants are now moving back to their country of origin.

This phenomenon must be analysed on a case-by-case basis. This is done in the individual boxes.



**ITALY:
HIGH INTERNAL MOBILITY;
EMIGRATION WAITING IN THE WINGS**

Southern Italy, which survives on agriculture with very little industry, was a major source of labour in the post-war period. After the war and up to the middle of the seventies, 60% of Italian emigrants came from the Southern provinces. However, the numbers gradually fell over this thirty year span from 160,000 people per year at the outset to 13,000 towards the end.

From 1970 onwards, the tide turned, with many former migrants returning to Italy, combined with the arrival of extra-European workers.

The beginning of the eighties saw a new development, with the departure of qualified young people (20-29 years old) from the North towards Switzerland or Germany.

Mobility within the country has now outstripped emigration, with 1.2 million Italians changing town every year, compared with emigration of 50,000.

Unemployment in the South of the country is double that in the North (19-20% compared with 8%) and could spark off a fresh wave of emigration to Northern Europe.

**GREECE:
EMIGRATION HALTED,
INFORMAL TERTIARY SECTOR FLOURISHES**

Evolution in Greece has been similar to that in Italy: massive emigration (almost one million people, 80% of whom went to Germany) up to 1975, following by a tailing off and the return of migrants, combined with the often illegal arrival of extra-European workers. More recently, qualified Greek workers have been emigrating in significant numbers to major construction sites and other development projects in the Near East.

Areas where the primary sector is dominant could be the source of fresh migratory flows in the near future. Emigration is perhaps the only way out for many workers in Greece, where Athens is the only industrial centre, the hotel and service sectors use extra-European labour and industrial investment, by its nature, has no impact on employment.



SPAIN: EMIGRATION TURNED ON ITS HEAD

During the sixties and up to the first oil crisis, one million Spanish workers tried their luck abroad. When employment problems began to bite in Northern Europe, the trend was halted and then in the eighties turned on its head, as emigrants began to return.

Between 1971 and 1986, the number of people applying to emigrate for economic reasons plummeted from 130,000 to a mere 9,000. Last year, 19,000 Spanish people returned to their native land for good, including 10,500 from other Community countries.

Spain is currently experiencing extra-European and even European immigration, with many British in particular packing their bags. In 1986, 17,000 work permits were granted to workers of Community origin, chiefly in the service sector.

Social security cover in Spain was improved around ten years ago, contributing to an easing of emigration pressure. Would-be emigrants have instead set their sights upon Madrid or the Spanish coast. On the other hand, large industrial conurbations are no longer a source of labour attraction, with outflows towards certain rural areas.

PORTUGAL: BRAIN AND RURAL DRAIN

Portuguese emigrants are at the top of the numbers league among the four Mediterranean countries. In the last 35 years, 2 million workers have moved out of the country. Again, the tide began to turn in the seventies.

However, the final destination of Portuguese workers tends to differ from that of their Mediterranean neighbours. The Portuguese are more inclined to set their sights upon America, Switzerland and the Middle East. Within the European Community, France and the Federal Republic have been home to the largest number of Portuguese emigrants.

More recently, Portugal has experienced a "brain drain" among the most highly qualified socio-professional classes.

Within the country, there are three types of migration: inland towards the coast; towards the developed areas of Lisbon and Porto; from rural areas to small inland towns.

Primary sector employment is expected to contract even further in the near future.



A number of factors, common to all the countries concerned, signalled the end of the South-North migration phenomenon around 1975. In the years just before this, almost six million people emigrated. The reasons for this change of heart are as follows:

- * Firstly and most obviously, changes in the modes of production and labour requirements of Northern host countries, resulting in a contraction in demand for unskilled labour;
- * Secondly, socio-economic developments within the country of origin. Determinant factors include:
 - strong economic growth within these countries, creating flourishing industrial and/or tertiary sectors teeming with job opportunities.
 - the introduction of social protection legislation in Southern Europe (social security, trade union rights, improved wages, social amenities, education and training policy), which played a prime role in curbing emigration.
 - the development of urban infrastructure or access to land or property ownership, both factors encouraging population stability.

Nevertheless, massive migratory potential still exists in Southern Europe. This latent mobility could re-surface in the event of recovery of job supply within these countries or within Northern Europe. A significant proportion of the workforce of Southern Europe is still employed in agriculture and demographic pressure, despite a slight easing, is still strong.

The new face of mobility is as follows:

- * a new generation of trained migrant workers has taken over from non-qualified workers
- * Southern Europe, following in the footsteps of the North (see below) is becoming increasingly polarised between regions with a high concentration of industry and a strong tertiary sector and "inland deserts", weakened by a relatively uncompetitive farming sector. At the same time, an "informal" economy is developing, providing unstable jobs and tending to reinforce the social split (again a phenomenon seen in the North)
- * the Mediterranean countries, previously by-passed by emigrants, are having to cope with growing numbers of extra-European migrants. Moreover, the existence of a large European market after 1992 could act as a magnet for extra-European workers.



FRANCE: TOP JOBS CLUSTERED IN CITIES

The situation in France is comparable to that in Germany. Immigration ceased about a decade ago and internal mobility reached a peak in 1975, dwindling ever since.

Urbanisation has steadied. Young workers continue to be attracted by the "Ile de France", but they often return home or move to the South after a few years. Until the end of the sixties, Northern and Eastern France were strong magnets, but with the decline of the traditional coal, steel, textile and shipbuilding industries, emigration ensued. There is little movement in West Brittany and the Loire country. The Rhône-Alpes, Mediterranean and South West regions attract many people because of the agreeable climate, good universities and strong service sector.

Although French emigration is low, there are 100,000 border-zone workers.

GERMANY: EXECUTIVES HAVE THE ROAD TO THEMSELVES

The Federal Republic of Germany played host to large numbers of refugees from the Eastern bloc and primarily from the German Democratic Republic in the fifties and sixties. When Northern manufacturing industries began to run out of steam, there was a migratory shift from North to South, fuelled by these immigrant populations.

Immigration gradually dried up in the seventies. There is now a trickle of immigrants from South East Asia. In West Germany itself, the rural exodus has ended and demographic stagnation has set in.

High technology centres, such as Munich, might prove to be a source of attraction for highly qualified workers from other European countries. Difficulties could arise in such a case, because at present there is no provision in German law for such workers to be joined by their families.

Although unemployment is higher in the North of the country, there is no migration rush towards the South. Only engineers and executives, whose qualifications enjoy national and possibly international recognition, move around the country. Low- or unqualified workers tend to be sedentary, remaining in local markets or resorting to the informal economy.



3. WEAKENED MOBILITY IN NORTHERN EUROPE

Northern Europe thus no longer has the capacity to absorb surplus labour from the south of the Continent or large numbers of extra-European immigrants who, in the past, flooded into several Northern countries. Certain Northern countries, such as France and Germany (see box below), have also experienced a significant decline in their internal mobility in the last decade.

This lack of labour mobility at both international and domestic level has been particularly characteristic of low-qualified or unqualified jobs. Even when afflicted by unemployment, workers in these categories remain in local markets where they can at least resort to the "informal" economy.

Immobility at the lower end of the qualificational scale contrasts with a sharp rise in the mobility of more qualified groups, such as engineers and executives. This is true throughout the Community.

On the other hand, the most highly qualified jobs are becoming clustered in large cities. As a consequence, economic activity is patchwork, concentrated in a few urban areas, rather than spread throughout the whole territory of Europe.



II. THE IMPACT OF THE INTERNAL MARKET

Bearing in mind recent migratory patterns within Europe, what impact will a Single European Market have? Will companies, which will be obliged to localise their activities, take up surplus labour capacity from around the Community or on its edges, or will they attempt to make the most of local resources?

The answers lie partly in the new factors determining geographical mobility within Europe.

1. NEW MOBILITY FACTORS: TECHNOLOGY TOPS THE LIST

Structural changes and evolution in modes of production are the factors having the greatest bearing on mobility and the shape which it takes. The era of rural decline and urban expansion is at an end. The heyday of cities could soon be a thing of the past.

Industrial and employment decay have hit entire regions. Computer technology has stepped into many low-qualified jobs. Factories need different qualifications, suited to the monitoring of automated production lines.

Leading-edge activities tend to huddle together. Dynamic small and medium-sized businesses, converging around a limited number of high-technology activity centres ("technopolis") are the main source of job creation.

Training facilities are a determinant factor in the location choice of such growth centres, which are a magnet for qualified young people. In such a situation, a small number of conurbations enjoy prosperity at the expense of other towns, over-dependent on declining activity sectors.



MOBILITY AND STABILITY: COMPLEMENTARY OPPOSITES

Geographical mobility is increasingly related to professional mobility. In other words, when people move, it tends to be connected with a change of job, qualifications, work conditions, pay or "employment mobility", namely a change of employer or firm.

Mobility has been much more low-key in the last fifteen years, due to slowing and unevenness of economic growth in Europe. Research has consequently concentrated on mobility's opposite number: stability.

In France and Germany (1), job stability is greater among people aged between 35 and 55 than among younger people; among people in full-time jobs than those in limited duration jobs, part-time jobs or homeworkers; among men than among women; and among people working in large firms than those with SMEs.

High salaries encourage stability. In Germany, an employee in a stable job earns 32% more per day than a worker in an unstable job.

Finally, home owners tend to be more stable than those in rented accommodation. Research in the United Kingdom and Germany has revealed that home-ownership, which governments often seek to encourage, reduces the geographical mobility of workers.

(1) P. Choffel: "Stabilité des emplois et évolution individuelles des Salaires", study covering the period 1976-1980. INSEE. Unité de Recherche N 180, June 1985, and U. Cramer: 1986, Nuremberg.

A new form of polarisation is emerging within the European economy. Towns are fighting for a place in the economic league; some will be unable to avoid relegation. Those who enjoy the status of research, government or innovation centres are in a league of their own and are busy forming interdependent networks.

A Single European Market will accentuate this high-performance, low-labour supremacy. Highly qualified workers will, in the future, move to large economic development and decision-making centres.

For less-qualified workers, on the other hand, movement from one employment market to another is becoming increasingly difficult. A divide is opening up between labour markets. Geographical mobility from the countryside to the town and sectoral mobility from, for example, the building industry to manufacturing, have all but halted. Markets are mapped out by qualificational barriers.

The rise in the service sector within Europe, coupled with the decline in industry, will not alleviate the situation a great deal. Although the service sector revolution is more homogeneous than the industrial revolution was, very few of its workers are migrants. Only the fringes of the employment market are



touched by the international, exporting dimension of services. This has, to date, been the exclusive domain of highly qualified operators. For the rest, service sector jobs are local and unstable. Their impact on poverty and social exclusion is often temporary.

2. UNEMPLOYMENT AT HOME OR THE GREAT UNKNOWN

Nevertheless, with average Community unemployment standing at just above 10% and pockets of much higher unemployment, mobility could become more pronounced. However, it will be characterised by instability, short-term jobs, sub-contracting, work at home or informal activities.

Young people living in Southern European regions offering poor employment prospects may turn, albeit in a dispersed manner, to Northern activity centres and try to find work in decaying production sectors. One illustration of this has been the recent arrival of Portuguese workers in Western regions of France, not previously an immigration target. In the long-term, this can change sociological and demographic balance. Northern populations are aging considerably, at least in comparison with the relatively young South.

The completion of the European Single Market will probably give rise to three types of migration:

A. The first parallels the migratory patterns seen during the industrial revolution. Areas with high levels of unemployment, in both North and South, contain large labour force reserves for low-qualified jobs and therefore large sources of potential migration.

However, unemployed low-qualified workers are little likely to move "with the jobs" because of the costs inherent in such migration (moving house, setting up home in a new place, search for work in a more wealthy, and therefore more expensive, environment).

The "stay-at-homes" are moreover bound together by a certain feeling of solidarity. The unemployed in the North of England, for example, are unlikely to look for work in the South.

B. Type two consists of more qualified workers converging upon traditional urban centres (London, Paris, Munich, Lisbon, Athens,...) or new technological attraction poles.

C. Finally, an open Europe will attract low-qualified extra-European workers, often from developing countries. They often arrive by unofficial or even illegal means and end up in difficult, dangerous and unstable jobs. Such jobs tend to be in the secondary or tertiary sectors and are connected with new growth areas.

Post-1992 economic policies at European and national level will be decisive in determining whether or not the migratory patterns predicted above become a reality.



COMETT, ERASMUS, YES: THREE COMMUNITY PROGRAMMES FOR YOUTH MOBILITY

Today's generation will be the ones who will have to cope with the mobility demands of the Single Market. In order to help them adjust, the Community has launched three Action Programmes which organise youth exchanges in an educational and training framework. The Programmes have been highly popular, reflecting public awareness of the need for mobility post-1992.

ERASMUS (1) and COMETT (2) are directed at young people and teachers following a university training course. ERASMUS seeks to stimulate inter-university exchanges and provides grants for study periods in universities outside of the home country.

COMETT strives to promote cooperation between universities and businesses at trans-European level. With the help of COMETT, universities can organise training courses in a company situated in another Member State and develop their advanced training facilities.

The final programme is "YES (3) for Europe". It is devoted to exchanges of young people aged 25 from all over the Community.

- (1) European Community Action Scheme for the Mobility of University Students
- (2) Community Programme in Education and Training for Technology
- (3) Youth Exchange Scheme

MOBILITY AND INFORMATION: REFORM OF THE SEDOC

Easy access to information on work conditions and job opportunities throughout the Community is a prerequisite for a truly European labour market.

In 1968, the Community launched the SEDOC (Exchange and Documentation System) network, which exchanges information on employment throughout the Community. Exchange is made possible by cooperation between national government departments for employment.

The system, which was ill-adapted to the demands of 1992, is currently being overhauled.



III. GUIDELINES AND PROPOSALS

1. REGULATION OF MIGRATORY MECHANISMS

It is vital that the Community deaden the social blow of such changes. It must anticipate evolution and adopt action guidelines which attenuate or defuse tension and conflict.

Migratory mechanisms must be regulated in such a way as to invigorate the service sector, cutting unemployment and pushing the informal economy out of the marketplace.

Careful consideration must consequently be given to working conditions, wages and differing degrees of social security cover. Costs of the different options must also be studied. Is it possible to promote employment mobility in a Community market where national labour conditions are preserved or should there be a gradual move towards harmonisation?

It would be inconsistent to introduce regulations enhancing the free movement of goods, establish new European company law, work for fiscal harmonisation, open up access to national and local public procurement contracts or foster common standards for goods and services whilst almost totally neglecting related social issues.

Recent labour market changes would seem to suggest that the Single Market will be an economic failure if the Community does not act as a regulatory counterbalance, providing social and socio-cultural cohesion.

The Treaty of Rome and the Single European Act enshrine the principles of the free movement of employees and the free establishment of self-employed workers throughout the Community. However, despite considerable progress at Community level on the free movement of employees and of those belonging to certain professions (1), there is still no common policy in the social field comparable to the Common Agricultural Policy or the common external policy.

The principle of free movement demands an end to nationality-based discrimination between Community workers. Employment, fair pay, the exercise of collective freedoms, labour legislation and various social rights

¹ See the first part of the "Social Dimension of the Internal Market" in a special issue of the review "Social Europe".



(housing, social security, unemployment benefit, pensions) are all fields where a Community presence should be felt and seen to regulate. But when government intervention in the social field is frowned upon at national level, granting of a regulatory role to the Community is doubly hard to swallow. Internal market policy in this area is not clearly mapped out. And despite or perhaps because of the pragmatism which characterises its work, the European Commission is treading very cautiously in this sector.

2. POLICY OPTIONS

A. Development of frontier-zone policy

European frontier-zone policy has fallen well short of potential, despite efforts to give it a firm Belgo-Franco-Luxembourg base in the "Europole" operation. Underdeveloped frontier-zone areas will become uncomfortably close to their flourishing partners in the next few years, with the extension of high-speed trains and the completion of the Eurotunnel project. For example, technologically aware South-East England will find itself nose-to-nose with decaying or restructuring French and Belgian regions. The sharp economic contrast could have major impact on potential mobility. The Commission could propose measures anticipating possible antagonism and contributing to the social and economic integration of such areas.

B. Balancing out the north-south brain drain

Mobility of the most highly qualified workers should also be studied. Northern European workers often dream of a move to one of the Southern countries, but could thus push local workers out of jobs. The opposite is true for workers in the South, who often move North to polish off their training before returning home. The Commission could analyse the cost of these migratory flows and the types of training affected. Effects could then be softened by grants, the funding in the South of training institutes and in the North of reception infrastructure.

C. Defining community policy on third-world immigration

The European Community must define and apply a clear policy on Third-World immigration. This problem, which affects all the Member States, could become more acute once the Single Market is complete and its attraction therefore stronger.

D. Checking the impact of standards harmonisation

The introduction of uniform standards throughout the Community could lead to a reduction in social cover in certain Southern European countries, where



people could attempt to sidestep standards by moving into the informal sector. This is a major risk in the tourism sector.

E. Better education and training

Mobility may be hindered by excessive regionalisation of training resources, where emphasis is given to adapting the labour force to short-term jobs in local businesses. A broader medium- and long-term qualification sweep is of prime importance and could be encouraged by the Commission through inter-regional networks of training establishments. Such networks could then plan ahead for localised new training needs.

F. Groundwork for mobility within the professions

Although the Treaty of Rome stipulates that those belonging to the professions (doctors, architects, lawyers, veterinary surgeons) should enjoy freedom of movement, in practice mobility opportunities are limited. More openings might be created by the wave of competition presently sweeping certain of the professions. The Commission is currently working upon the mutual recognition of diplomas, which would make it possible for a professional person to set up a business or practice in another Member State. Its chief concern is to make mobility possible, not to encourage it. If mobility were to be made a prime objective, perhaps after 1993, then measures regulating access at university level to certain professions would be necessary. For example, there are too many doctors in France and in Italy and an overabundance of dentists in the Netherlands.

G. Better understanding of mobility

Research should be conducted at European level into mobility phenomena and their implications. Factors determining mobility within various population categories must be established. Points worthy of particular attention include:

- * methods of analysing mobility
- * steps which could be taken to match up employment supply and demand
- * need for development drivers and dynamic productive units
- * working women and mobility
- * training and the steering of mobility into regions where the economy is underdeveloped and under-diversified
- * the Common Agricultural Policy and farmer mobility
- * the mobility of immigrant workers
- * mobility related to leisure and cultural activities
- * careful analysis of mobility in frontier-zone regions
- * indirect taxation and consumption mobility
- * ways in which migrant workers can return to and be re-integrated into their home country
- * mobility and linguistic culture.

COMMISSION OF THE EUROPEAN COMMUNITIES / DG V



**SOCIAL POLICY
AND THE DYNAMICS
OF LOCAL DEVELOPMENT**



CONTENTS

I. BACKGROUND

1. SOCIAL POLICY IN PRACTICE

A. COMPENSATION FOR SOCIAL INEQUALITIES

B. CRISIS MANAGEMENT

2. REVIVAL OF INTEREST IN THE LOCAL DIMENSION

3. A THREE-STEP PROCESS

4. INSTRUMENTAL ROLE FOR GOVERNMENT

II. THE IMPACT OF THE SINGLE MARKET

1. ASSESSING LOCAL IMPACT

2. THE COMMUNITY DIMENSION

III. PROPOSALS

1. THE KEY ROLE OF DEVELOPMENT AGENTS

2. THE COMMISSION AS A DEVELOPMENT CATALYST



SYNOPSIS

Local development is only part of the answer to the economic changes which the Single Market project will bring in its wake. But it is a vital component of a harmonious economic system and one which has been neglected by "traditional" social policies.

This is not to say that social policy should be conducted uniquely from a local viewpoint. The successful resolution of many problems will continue to demand a much broader approach.

Social policy can provide invaluable non material support for job creation in a local context. A Community contribution could therefore take the form of training for "development agents", who in their turn provide guidance services for would-be entrepreneurs.

It is imperative that the Commission be equipped with the means to analyse the social impact of the Single Market project. The Community must have forewarning of which social groups and which regions will be hardest hit, of the nature and intensity of social changes. There must be anticipation of social exclusion and action to counter it.

Once such analysis has been completed, the coordination of ERDF and ESF Fund use can be improved and funding directed at social policies operating in the local development sphere.

Finally, the Commission should give full support to this work and distribute information on the results. It must act as a driver and catalyst of local development projects.

This paper will reflect on these questions and suggest possible ways of furthering Community support for job creation at local level.



I. BACKGROUND

1. SOCIAL POLICY IN PRACTICE

An idea of how well European governments are able to adapt their social policies to economic change is obtained by studying evolution in this policy sector in recent decades.

A. Compensation for social inequalities

The starting point for social policy formulation in all the Member States was the perception of a need to compensate for social inequalities. In the days of rapid economic growth, policy sought to redistribute economic gains from the productive sector and correct any negative social effects which growth had.

The underlying shortcomings of this attempt at evening out social inequalities remained hidden for as long as the economic boom continued. With hindsight, two weak points, which lie at the root of current difficulties, can be distinguished:

- * Policy was imposed from above and formulated without the participation of beneficiaries, which has tended to reinforce a state of dependency.

- * Policy has been implemented through disjointed, sectoral activities, each responding to an individual problem (employment, training, housing, poverty and so on). As a consequence, they operate through a mass of different organisations (government departments, local authorities, social establishments, welfare organisations) which each have specific aims and are targeted upon highly segmented groups (young people, long-term unemployed, immigrants, old people and so on).

Within this system, the only perception of the locality has been as an application point of various social measures defined at central level. The local dimension has been very much a secondary consideration, seen only in geographical terms. For central policy-makers, the locality has been perceived an area which national social problems and responses operate on a smaller scale.

B. Crisis management

As growth slowed, social policies retrenched into crisis management. Social problems were exacerbated by recession, economic restructuring and the arrival of new technologies. Their most visible manifestations have been rising unemployment, a lack of training or poor matching of qualifications to job supply, professional integration difficulties of young people and women, the elbowing of older workers and immigrants out of the labour market, housing and transport difficulties, generally poorer living conditions, rising delinquency, dwindling resources and an alarming rise in the "new poor".



Traditional social policies were, by their very nature, totally unprepared for this explosion in need. In addition, recession has meant fewer resources. While some attempt has been made to adapt, responses have been very diverse and in some cases flatly contradictory. In some instances, for example, steps have been taken to enhance social protection, but at the same time access conditions have become much more strict. Some countries have attempted to scale intervention according to need, while simultaneously checking carefully claimants' right to benefit. Bodies administering social protection have been made subject to more stringent management and in some cases, financial burdens have been spread between a number of different authorities.

All this fails to get to grips with the basic problem: crisis has become a lasting phenomenon and social security systems are overwhelmed by a surge in needs, with which they are ill-designed to deal. This is compounded by the perverse effects of social protection, inherent in the nature of the system.

THE PERVERSE EFFECTS OF TRADITIONAL SYSTEMS

Fundamental criticism of traditional social policies relates to the perverse effects which they can have and which are inherent in the nature of the system. Benefits and social transfers, rising in line with needs, are simply a mechanical response to the negative aspects of economic activity. New jobs move to the top of the priority list when redundancies begin to rise. Training is preeminent when qualifications are outdated. Income aids are provided when poverty bites. Such policy has blindly and unwittingly led to a divided society, where the less fortunate have the greatest difficulty breaking out of the dependency created by assistance. Traditional policy, designed to regulate the economy in "abnormal" situations, has "officialised" the social divide. At the same time, policy has been confronted by situations which no longer relate only to a minority but have become problems touching much of the population.



2. REVIVAL OF INTEREST IN THE LOCAL DIMENSION

Debate on the emphasis and role to be given to the local dimension must be set in the climate of doubt surrounding the usefulness of "traditional" social policies in a modern-day situation. Social workers, in touch with the local environment, were the first to point to the flaws in traditional policies described above. They were also the first to come up with an alternative, namely the integration of social policies into the dynamics of local development.

This new strategy operates on the basis of three innovative principles which reflect social reality:

- * first of all, it aims to involve all social groups;
- * secondly, action must be as close to the problems as possible; namely at local level;
- * finally, the economic and social dimensions must be integrated into an all-round approach.

"Local", in this context, does not refer to a small administrative division, but rather to an area where there is a common awareness of problems and willingness to act to resolve them. A locality has the best interests of all its population at heart and has partners willing to cooperate with one another. A "critical mass" is the key to making an impact.

This approach has now won broad acceptance. Central government sees an upsurge in local development activities as an opportunity to off-load some of the political responsibility, if not cost, of intractable problems. They are therefore willing to bestow greater power and capacity for initiative upon local authorities. Welfare organisations are recognised as fully-fledged partners in the development process. And social policy beneficiaries no longer feel that they have no control over their own destiny.

3. A THREE-STEP PROCESS

Seen in this light, local development is a force for social change in the cultural, professional and organisational spheres. Simplifying the process to the extreme, three main stages can be identified. However, there is no general pattern and localities may regress or even fail to go beyond a particular stage.

* Phase one: growth in awareness of a local problem. This is often related to the onset or intensification of a social crisis not alleviated by traditional measures. Feelings of belonging to a particular area are strengthened in crisis. The feeling of being behind other regions can also trigger a sense of local identity and of a need to mobilise local resources to close the gap.

* Phase two: organisation of local partnerships and renewal of the social fabric, drawing upon existing structures or creating new ones which are freed from the weight of the past. During this phase, "new blood" with new ideas joins the fray.



This innovative force draws together all committed local partners, stimulates action, pulls public opinion along with it and wins acceptance of the concept of "social solidarity" in an integrated framework. At this stage, existing institutions are drawn into the local development process and continue their activities, but from the new perspective.

* Phase three: transition from ideas to specific objectives and from objectives to action. This is a very complex phase, when aspirations have to be objectively quantified into specific objectives. It culminates in the planning and implementation of joint projects. Professional and technical concerns take over from the more political process of whipping up initial enthusiasm.

THE CULTURAL SIDE TO LOCAL DEVELOPMENT

A successful local development process requires a change of mentality; it is not merely an economic operation. Other strategic and cultural variables, such as a spirit of initiative, drive and open-mindedness, must be brought into play. Where these exist, they trigger what can be termed the "levers" of local development, namely a sense of awareness among local "actors", consensus on what needs to be done and full exploitation of potential. Areas already optimising resources such as initiative, entrepreneurship, joint action and social mobility have a head start over those lacking these innovation drivers.

Within the process of economic restructuring, a break with the past is an unavoidable part of local development. Crisis is the forerunner of evolution, simply because evolution implies a questioning of the efficiency of existing values.

4. INSTRUMENTAL ROLE FOR GOVERNMENT

The local community may be incapable of setting the local development process in motion or unaware of its potential benefits. In such cases, it is clear that government and its officials can play an instrumental role in launching the process. But when external stimulus is necessary, the steering, running and control of activities should be handed over to the local level once the process is underway.

If local development requires "supra-local" financial support, there should be consultation and negotiation on general development aims. Two principles should be uppermost in their selection:

- it is utopian to seek total agreement on aims. The appropriate aims are the ones upon which there is sufficient consensus to enable their implementation;
- nor should the financial authority seek to impose its aims. Local "actors" must be able to define their own project and action plan. Government support should not be a barrier to local wishes, although government can choose to tie aid to verifiable results.



Government authorities at all levels therefore have an important role to play in local development. To date, they have been ill-prepared for this role and little versed in its potential. Since both the "personal touch" and driver function of political officials can tip the balance in favour of successful local development, investment should be made in their training. This is why they are at the centre of the proposals made below.



II. THE IMPACT OF THE SINGLE MARKET

1. ASSESSING LOCAL IMPACT

Although the central objective of the Single Market plan activated by the Single European Act is stronger growth and greater competitiveness of European companies, it would be dangerous to ignore its social consequences.

In a large European market, industrial specialisation and merger are inevitable. This will lead to a re-distribution of salaried employment between sectors, geographical shifts in employment and changes in income distribution. There is a risk that the existing regional imbalances in the Community will be further heightened. Areas with strong economies and excellent human resources (qualifications and infrastructure), where know-how, educational and cultural conditions are favourable will be able to exploit the Single Market to the full. Those already "out of it" will be social flashpoints.

2. THE COMMUNITY DIMENSION

The Single European Act stipulated that the Single Market project implied simultaneous advancement on both the social and economic planes. The social aspects of 1992 should not merely be seen as the inevitable results of economic mechanisms. The need for economic and social cohesion within the Community should not be ignored.

The social changes which will be brought about by the modification of economic structures are currently assessed with reference to past evolution rather than the projection of future changes.

The Commission therefore still has to gather together the means to forecast the possible impact of the Single Market on employment structure, income distribution between social groups and local employment markets. Assessment is also required of whether it will increase the risk of social exclusion for certain population groups. Such analysis will be carried out on the basis of possible scenarios for the evolution of productive activities between sectors and between regions.



III. PROPOSALS

It has been suggested that, in addition to this investigatory work, the Commission seek to promote the integration of social policies into local development. The central thrust of such a policy would be the training of "development agents", through coordinated Structural Fund operation. "Development agents" identify and support local initiatives which could prove to be sources of job creation.

1. DEVELOPMENT AGENT: THE ENERGISING ENABLER

Job creation is only one aspect of social policy, even at local level. Nevertheless, it tops the priority list of both local development and the social dimension of the Single Market.

There is now general consensus that immaterial investments are as critical and vital as financial support. New businesses need reception infrastructure, advice, help and if necessary training.

This is where development agents come in. They can offer three types of help:

- * "Energising" activities designed to create a favourable environment for the emergence of new businesses, through the collection and distribution of information which could stimulate the implementation of local-level projects.
- * Support activities, helping to get the project off the drawing board. Examples include the transfer of applied research from university to industry, aid in drafting a business plan, legal advice, help in raising finance and so on.
- * Finally, the search for external financial aids, notably those granted for job creation projects.

Development agents therefore promote development in a range of different ways. They push innovation, energise the local economy, mobilise local resources, set up contact between new businesses, forming them into networks, and distribute useful information and know-how. Theirs is a very important role, requiring suitable training which could usefully be supported at Community level.



COMMUNITY CONTACTS WITH LOCAL DEVELOPMENT AGENTS

Local development agents already play a very active part in specific programmes implemented in the framework of the European Regional Development Fund (ERDF) activities. For example, they can provide the final push enabling would-be entrepreneurs to take the plunge, through their contacts in the local economy and by circulating advice and information on public aids available for such projects. Resources have consequently been earmarked in the majority of ERDF specific programmes set up by the Commission and notably in the Integrated Mediterranean Programmes (IMP) for the creation and support of local economic development agencies.

The Commission is aware of the vital contribution which such agencies make to the endogenous development of localities. One expression of this awareness has been a programme of exchange visits between development agents, giving them an opportunity to view at first hand the work of similar bodies in a Member State other than their own. The Commission is currently studying the viability of a continuing training programme for development agents.

For further details, contact Cathérine Leroy, ELISE (Information Network on Local Employment Creation Initiatives), 34 rue Breydel, B-1040 Brussels. Tel: +32 2 230 52 34

JOB CREATION AND LOCAL DEVELOPMENT

Innovation is a key characteristic of new businesses. This does not just mean technological advance. New forms of marketing or work organisation also have a high profile among successful new local businesses.

Two points must be borne in mind in relation to employment creation, particularly in areas where the economy is weak:

- * There are two types of activity: activities directed at a competitive market which, in the long term, can be sustained without any economic props; and activities not supplying commercial goods and services which cannot be judged using normal profit criteria. The problem here, in the context of new local development, is to find the necessary resources to support this latter category.

- * Employment creation is a long and difficult process. Its impact cannot be measured in the short-term and cannot be assessed solely in terms of jobs created. Any social policy must seek to repair tears in the social fabric rent by economic change.



2. THE COMMISSION AS A DEVELOPMENT CATALYST

The Commission should give its full support to this work and distribute information on the results. It must act as a driver and catalyst of local development projects.

LEDA: EUROPE BANKS ON HUMAN RESOURCES

The LEDA Programme was launched three years ago by the Directorate-General V of the European Commission. It is an original initiative which explores local development strategies in 24 pilot areas throughout the Community. The Programme seeks to exploit to the full the employment creation potential of local development.

LEDA does not provide financial support. It aims to achieve greater understanding of development strategies and help "local actors" put them into practice.

In this manner, new local development "tools" can be developed and disseminated both to local actors and to "supra-local" policy-makers at Community and Member State level. Better understanding of the dynamics of local development can lead to more successful policies for employment creation.

Contact: LEDA Programme coordination, Haris Martinos or Andrea Caspari, Local and Regional Development Planning, South Bank Technopark, 90 London Road, London SE1 6LN, UK. Tel: +44 1 922 88 35

COMMISSION OF THE EUROPEAN COMMUNITIES / DGV



**NEW PROFESSIONS AND
QUALIFICATIONS:
THE IMPACT OF THE
SINGLE EUROPEAN MARKET**



SUMMARY

I. BACKGROUND

1. THE "FAST" APPROACH: TECHNOLOGY-LINKED EMPLOYMENT EVOLUTION
2. THE "LINDLEY" APPROACH: CHANGE IN THE NATURE AND DISTRIBUTION OF EMPLOYMENT
3. A NEW CONCEPT OF "ON-THE-JOB" PROFESSIONALISM
 - A. ENTRY "EN MASSE" OF NEW TECHNOLOGIES
 - B. INTERNATIONALISATION OF ECONOMIES
 - C. ORGANISATION AND MANAGEMENT: TASKS TO BE RECKONED WITH

II. THE IMPACT OF THE SINGLE MARKET

1. GENERAL MEASURES AND SPECIFIC MEASURES
2. FIVE MAIN IMPACT POINTS
3. IMPACT OF THE "FOUR FREEDOMS" ON THE EMERGENCE OF NEW PROFESSIONS AND QUALIFICATIONS
 - A. THE FREE MOVEMENT OF GOODS
 - B. THE FREE PROVISION OF SERVICES
 - C. THE FREE MOVEMENT OF CAPITAL
 - D. THE FREE MOVEMENT OF PERSONS

III. GUIDELINES AND PROPOSALS



SYNOPSIS

The employment crisis which has struck Europe has its origins in rapid evolution in the nature of work and in the qualifications required by the market. New technologies, particularly information and communications technologies, are the driving force behind this evolution. They have created a need for new qualifications and, much more significantly, have changed the face of the entire production apparatus. New professions have emerged in response.

The Single European Market will accelerate this process. General measures to strengthen freedom of movement will speed up the growing internationalisation of economies. More specific measures on the freedom of movement of individuals and freedom of establishment will also exercise pressure in this direction.

While the Community has no power to set up a supranational training system, supplanting the Member States and regions, it can ease the changes which the Single Market will bring by continuing and developing its range of support activities.



I. BACKGROUND

The nature and direction of future trends must be analysed before the potential impact of the Single Market can be assessed. There are several concurrent approaches to this question:

1. THE "FAST" APPROACH: TECHNOLOGY-LINKED EMPLOYMENT EVOLUTION

The EC's FAST Programme (see box opposite) is devoted to the assessment of technology-linked employment evolution in the medium- and long-term.

A. It has already concluded that from a quantitative viewpoint overall employment is only reacting slowly to technological evolution. This gradual adjustment arises from the mixing of old and new technologies as companies renew their equipment or seek productivity or quality gains. In this phase, employment is preserved more or less intact.

B. Qualitative evolution, however, has been in a different direction, under the combined pressure of contradictory forces. On the one hand, there has been a narrowing of demand onto certain professions, but on the other polyvalent qualifications have come to the fore. The long-term outcome of this will be:

- * growth in programming and monitoring jobs and depletion of production jobs.
- * new forms of industrial organisation, where services provision is clustered around the production "core".
- * the development of technologies which can be programmed to carry out a range of specialised tasks. These foreshadow flexible and "mobile" automated factories, which will be the dominant production form in twenty years' time.

In terms of employment, this evolution will give rise to a need for more managers, systems engineers and scientific R & D staff. This need will become increasingly pronounced as the years go by and will make more demands on intelligence, coupled with greater organisational and communications skills.



FAST: TECHNOLOGICAL IMPACT ASSESSMENT

The FAST programme (Forecasting and Assessment in the Field of Science and Technology), implemented by the Commission's DG XII, provides long-term signposts for Community R & D.

FAST's originality lies in its concentration upon the social impact of the application of new knowledge and technologies. The programme has a number of themes for analysis :

- * the relationship between technology, work and employment
- * changes in services provision and in technology
- * the implications of technological developments in the communications sector.

2. THE "LINDLEY" APPROACH: CHANGE IN THE NATURE AND DISTRIBUTION OF EMPLOYMENT

The research of the "Lindley Group" has been anchored more firmly on changes in the nature and distribution of employment.

The Group's research has looked at five of the EEC Member States (see box opposite). It concludes that pockets of under-employment will probably persist until the end of the century. Employment growth in the services sector will not manage to sustain the pace shown in the decade 1975-1985. It will not therefore be in a position to absorb employment losses in industry and agriculture.

It has forecast the following changes on the quality front:

- * Current sources of job creation which will continue to generate employment:
 - the industrial and financial business sectors and related services.
 - tourism, leisure health care and related fields.
- * The number of hours worked is expected to drop and more women are expected to come into the employment market.
- * In the skills market, there will be greater demand for high-level experts, senior and administrative executives, scientific engineers and intermediary scientific specialists. Generally speaking, senior technicians' chances in the employment market will be improved if they have extra qualifications and if they are able to work in a team.
- * To a greater extent than in the past, experience and skill acquired "in the field" will be a decisive factor, perhaps even more decisive than initial training.
- * Skill versatility will be a must for workers with intermediate or low qualifications.



* More flexible work forms will develop through growing use of self-employed, high-qualified staff for short periods of time.

THE LINDLEY GROUP

The Lindley Group is an international think tank bearing the name of its rapporteur, R.M. Lindley. In 1987, the Group produced a comparative study funded by DG V on new work forms and new sources of job creation in France, the Federal Republic of Germany, Italy, the Netherlands and the United Kingdom.

A summary of this report was published in the review Social Europe 3/87. Accounts of its conclusions country by country have been published separately by the Commission. The Group is currently researching into changes in the nature of work.

3. A NEW CONCEPT OF "ON-THE-JOB" PROFESSIONALISM

The very concept of profession and qualification is changing. People must be able to adapt to the professional situation in which they find themselves. Skills no longer simply consist of know-how. They also encompass knowing how to react, how to work in a team and, most important of all, how to learn.

This "on-the-job" professionalism has been conditioned by at least three factors characterising the age in which we live:

A. ENTRY "EN MASSE" OF NEW TECHNOLOGIES

New technologies, and in particular computer technology, have become part and parcel of Europe's economy. In many instances, they are combined with "old" technologies to produce "hybrids". For example, the arrival of electronics in the mechanical sector gave birth to robotics. It made a similar match with the optics sector, leading to the development of opto-electronics. New professions have opened up in response, using new tool and method skills to harness the capacities offered by the technology. The secondary sector has developed a tertiary offshoot (1).

(1) The tertiary sector has experienced the same services influx, for example with the introduction of computer technology in the banking and insurance sector.



B. INTERNATIONALISATION OF ECONOMIES

A modern economy must be international if it is to be viable. Qualifications must be adapted to the international environment. In other words, they must integrate linguistic skills, knowledge of international trade practices (marketing, sales, law) and so on. "Middlemen" professions have flourished as a consequence, particularly in the communications arena (translation, brokerage, partner search...).

C. ORGANISATION AND MANAGEMENT: TASKS TO BE RECKONED WITH

The body of skills which in the past a blacksmith, carpenter or roofer had to possess in order to master the trade was fragmented when mass production became the rule. Interdependence reigns both on the production line and in the services sector. Very few people, even in extremely specialised fields, can claim to master all the skills required.

The people most coveted by a business are therefore those who can take responsibility for the organisation and management of this task interdependence whether at the level of production, distribution, financial management, project set-up or optimisation of human resources.

Any company satisfies this resource need in two manners. First of all, it employs more executives with all-round skills, who can grasp systems management in all its complexity and take decisions. Secondly, they turn to external help, particularly in the form of companies specialising in "business services".

Naturally, there is no one model for the complex organisation of a modern business. The shape and form of its organisation varies according to application and the combination of capital and labour. Similarly, there is no single pattern to the growth of an organisation and the qualifications which it needs. However, to be successful any business must combine efficient management of human resources and flexibility of work tasks and qualifications.

Growing organisational complexity is not a problem confined to business. It exists throughout the contemporary urban, administrative and political environment. "Systematics" is one of the salient features of modern society.



AGREEMENT ON FIVE KEY POINTS

All the experts whose opinions have been mentioned above agree that professions and qualifications will have to adapt to the Single European Market. They identify five key points:

- * general rise in the level of knowledge and qualifications required for the exercise of a given profession;
- * professional versatility;
- * equal importance of qualifications and experience;
- * flexibility and the ability to adapt;
- * need for managers and "advisors" to be extremely well qualified.

II. THE IMPACT OF THE SINGLE MARKET

1. GENERAL MEASURES AND SPECIFIC MEASURES

The Single Market will accelerate and accentuate existing economic trends and considerably strengthen economic integration in Europe. This evolution will inevitably leave its mark on employment and on Europe's social and regional fabric. Professions and qualifications will also have to adapt. In the medium-term, the Single Market could be a source of job creation (see the "Cost of Non-Europe"), provided that the labour market becomes more efficient, flexible and adaptable. Training schemes have a special role to play, as the initiator of vital innovative drive among their students.

A. The general ways in which the Single Market plan will affect the employment market are as follows:

- * reduction of border controls
- * the integration of technical standards and the mutual recognition of norms
- * the opening up of markets to suppliers from other EEC Member States
- * the harmonisation of regulations applying to industrial activities and competition rules
- * the harmonisation of taxation systems.

B. Measures specifically affecting the type of work which people do and the qualifications which they need include:

- * the freedom to exercise your profession anywhere in the Community
- * the introduction of a "vocational training card", identifying people's training
- * the mutual recognition of diplomas and the creation of equivalent ratings in cases where national diplomas are too far apart for mutual recognition to be possible
- * the organisation of multinational vocational training courses
- * the deregulation of certain jobs
- * the resolution of fiscal problems which individuals often come up against when they move from one Member State to another.



2. FIVE MAIN IMPACT POINTS

There will be five main impact points for these general and specific measures.

A. Flexibility and work contract form

Two emerging features of the employment market will become permanent after 1992:

- * temporary contracts
- * the search for work flexibility

B. Adaptability of qualifications

- * Forward management of qualifications and careers will exist in large companies. SMEs will be able to exploit their flexibility asset.
- * "Modular" type qualifications will spring up. They will enable access to and exercise of certain professions, notably legal ones, in a more supple manner, better adapted to the international environment.

C. Migration and the "internationalisation" of qualifications

Labour is less mobile than capital. However, its mobility can be improved by investing in three factors:

- * the general improvement of language learning
- * the creation of an environment encouraging firms to send their qualified executives abroad more frequently
- * access to training and employment throughout the Community (i.e. not just in country of origin) for less or low qualified workers.

D. Interaction between the goods and services market on the one hand and the labour market on the other

The fiercer economic competition which will be one of the sidekicks of the Single Market could lead to a levelling out of salaries, although extremely varied national legislation on this point will drag against it. The amplification of distortions at European level must be avoided at all costs.

E. Employment spread and location

Technological progress, particularly in the field of telecommunications, has made it perfectly feasible for employer and employee to be some distance apart. Looser, more fluid company structures will gradually grow up, having major consequences for the spread of employment and national and regional development within the Community.



3. IMPACT OF THE "FOUR FREEDOMS" ON THE EMERGENCE OF NEW PROFESSIONS AND QUALIFICATIONS

The reinforcement of the "four freedoms" as part of the Single Market plan will give fresh impetus to the emergence of new professions and qualifications.

A. THE FREE MOVEMENT OF GOODS

The ability of economic operators to move goods freely from one Member State to another is one of the cornerstones of the Single Market. Measures to bolster this principle will render Europe's economies even more international. At company level, it will give rise to greater demand for multilingual and mobile senior executives. Vocational training will be adjusted as a consequence.

Belgium and the Netherlands have acted as a "laboratory" for the expansion of language teaching and commercial adeptness (particularly in export markets) in line with the "Europeanisation" of their economies.

Evolution in the training of workers, low-level employees and technicians will probably be less rapid. These categories will however be more aware of mobility opportunities in a Single European Market and this will lead to increased pressure for language learning.

B. THE FREE PROVISION OF SERVICES

The freedom to provide services anywhere in the Community will naturally also stimulate the internationalisation of the service sector. The service sector can however be split into three categories:

- * in the transport and distribution industry, where services are already organised on a European level, there will be no major changes.
- * on the other hand, producer industries will internationalise their activities in step with their customers.
- * services to individuals will retain their local nature.

The communications sector, spanning telecommunications, audiovisual, the media and similar such activities, stands to gain a great deal from the Single Market. While the professions will stay the same, their markets will expand considerably.

C. THE FREE MOVEMENT OF CAPITAL

Financial professions (capital management, financial services, tax advice,...), which are already flourishing on an international scale, will be able to cash in on the Single Market.



D. THE FREE MOVEMENT OF PERSONS

The free movement of persons is closely connected with the sensitive issue of freedom of professional establishment throughout the Community.

In the short term, problems of diploma equivalence and mutual recognition will have to be resolved, particularly when national differences affect the way in which a profession is exercised (law, medicine). However, this process is already underway, as provided for in the Commission's White Paper. Some proposals have nevertheless got stuck in the pipeline.

Vocational training and qualifications are one example of this. The equivalent rating system existing in this field would appear to be too complicated and too slow. The system for the mutual recognition of diplomas should perhaps be extended to this field.

In the medium- and long-term, steps must be taken to enable students to switch with ease from one EEC school or university system to another. Care must be taken to weed out diplomas which are "protected" and only recognised at national level. These would form a barrier to school and university exchanges.

HUMAN RESOURCES: MAKE-OR-BREAK FOR 1992

The European Community's ability to sustain growth in the 1990s hinges upon its human resources: will they be available and sufficiently qualified?

Special attention must be given to the adaptation, evolution and management of human resources through national education and vocational training systems. All interested partners must be involved. In other words:

- * companies must begin to consider training as a strategic investment;
- * vocational training must be better adapted to the needs of a modern economy;
- * education systems must be overhauled, with the introduction of new decision-making processes, teaching methods and syllabuses. They must operate in partnership with the world of business and must keep up with technological progress.



III. GUIDELINES AND PROPOSALS

The Community has no wish to substitute a "standardised European system" of training and education for the different national and regional systems. Pragmatism and decentralisation are the two current watchwords in the Community. It is inevitable that the matching of training and qualifications to jobs is to a certain extent a local and sectoral process.

Nevertheless, several suggestions for more pronounced Community action with a view to easing the free movement of persons and the economic changes provoked by the completion of the single market can be made:

1. More extensive use of the principle of mutual recognition, notably through support for the concept of "modular qualifications".
2. Measures to ensure the coexistence of a company-orientated and individual-orientated training policy (see box opposite).
3. Support for the creation or development of "EC specialities", such as EC company law, taxation, culture, ethnology....).
4. The stepping up of activities - particularly through Social Fund support - in order to train young people and re-train adults in areas with a development lag or experiencing difficulties re-directing their economy following industrial decline.
5. More information, research and analysis activities on professions and qualifications at Community level. This work should preferably be carried out by the CEDEFOP.
6. The launch of Community training programmes where participants are given a chance to carry out research in a Member State other than that where initial training was accomplished.

Some of these suggestions are more important than others. The first step is therefore to identify the most pertinent.



TRAINING: BUSINESS AND INDIVIDUAL AWARENESS

A training policy tailored to an individual business can provide it with the qualifications vital to its development. Such policy must be implemented from the level of executive down to technicians and young people new to the company. Its success has been demonstrated by experiments conducted in the North of France by B. Schwartz. The entire body of human resources which a business possesses must be involved in the process of adapting to the company's needs.

A training policy directed specifically at the continuing acquisition by the individual of new skills, which may be complementary to State or business training schemes, requires the development of new forms of savings, insurance and training "voucher" schemes.

COMMISSION OF THE EUROPEAN COMMUNITIES / DGV



**AN EC PLATFORM OF
BASIC SOCIAL RIGHTS
-
A NEW OPPORTUNITY**



SUMMARY

I. BACKGROUND

1. THE LEGACY OF THE WELFARE STATE
2. ECONOMIC CRISIS: WELFARE POLICY UNDER FIRE
3. NORTH/SOUTH DIVIDE

II. THE IMPACT OF THE SINGLE MARKET

1. THE SOCIAL FACE OF THE SINGLE MARKET
2. 1987 BELGIAN PRESIDENCY CALLS FOR PLATFORM OF BASIC SOCIAL RIGHTS
 - A. BACKDROP TO THE PROBLEM
 - B. THE ARGUMENTS IN FAVOUR
 - C. THE ARGUMENTS AGAINST

III. GUIDELINES AND PROPOSALS

1. CLIMBING DOWN FROM THE PLATFORM
2. GETTING INTO LANE



SYNOPSIS

It is inevitable that the face of the Community's economy and of competition within it will change with the advent of a Single European Market. Competitiveness is in part determined by labour costs. And yet Member States have retained their different approaches to "social" policy, despite the stipulation in the Treaty of Rome that the differences in this field be gradually narrowed.

Some Northern Member States, where workers enjoy a high level of social protection, fear that the Single Market and, in the longer term, European monetary unification, could intensify competition between the Member States, precisely because of differences in direct and indirect labour costs. The Southern Member States have even been accused of deliberately practising "social dumping".

In 1987, during the Belgian Presidency of the EEC's Council of Ministers, the idea of a Community-wide "platform of basic social rights" was put forward in an attempt to take the heat out of the argument.

Member States' reactions to this suggestion have been varied. The Southern Member States refute the claim that labour costs weigh so heavily in the competitiveness equation. They maintain that a high level of social protection is even a comparative competitive advantage, for it acts as a magnet for qualified labour. They see it as a luxury which, given their level of economic development, they cannot afford.

The principle of a platform of basic social rights is more moral than economic. This is its Achilles' heel, for history has demonstrated that social rights have emerged from strife, forcing the hand of employers, rather than through a sense of moral duty. The State has then been drawn into the process and the rights won embodied in law.

Although experts agree that all the Member States should strive towards respect of the "platform", they suggest that progress can be at different speeds, depending upon social and political conditions and economic margin of manoeuvre. In other words, the path to the platform would be divided into a number of "lanes", indicating the speed of progress of an individual Member State. Such a process would inevitably be long-winded.



I. BACKGROUND

1. THE LEGACY OF THE WELFARE STATE

In the after-war period, the "fordist" growth boom (1), sparked off the creation of social security systems and the improvement of working conditions throughout Europe. They were inspired by a desire to share out the fruits of strong economic growth (2) and improve the lot of the working class.

Welfare systems were set up under the supervision of nation States. The State transposed into legislation the outcome of negotiations between the social partners. Such negotiations were often organised as a response to major labour unrest.

The role of the welfare state continued to increase in amplitude until economic crisis began to bite. It took on specific European characteristics, distinguishing it from welfare protection in the United States or Japan.

2. ECONOMIC CRISIS: WELFARE POLICY UNDER FIRE

When the economic crisis took serious grip in the European countries, around 1975, social security and work organisation systems came in for serious criticism. Some analysts maintained that they weighed too heavily on European economies.

They felt that the "burden" of social security cover was responsible to a large extent for the lethargy of European economies and their failure to adapt to fast-moving international economic evolution. Supporters of this political theory believe that Europe's loss of international market shares can be explained by too high labour costs.

Their criticism of the welfare state is uncompromising. Paradoxically, these calls for social policies to be dismantled originated across the Atlantic, despite the fact that the Central State has continued to play a major role in welfare systems in the United States (3). Dismantling would, moreover, appear to be

(1) Centred around the advent of mass consumption and mass production - the latter pioneered by the famous car manufacturer, Henry Ford.

(2) This was true in the fifties and sixties, apart from in the United Kingdom.

(3) Not all of the US Budget is spent at federal level. The United States Government grants considerable sums to its various States for local development and economic and social measures in areas coping with declining industrial sectors.



unwise at a time of economic crisis, when demands on the system have risen. Redirecting of resources would appear more reasonable.

Closer analysis of the phenomena now characterising the welfare state and Europe's economies demonstrates that a simple return to the laws of the market is not the correct option. Rapid solutions should be found to the failing of current systems. But radical solutions could simply add to the damage.



CAN MARKET MECHANISMS SOLVE ALL THE PROBLEMS OF SOCIAL SECURITY SYSTEMS?

*** INCOME SHORTFALL**

The income of social security systems has contracted in line with the drop in the proportion of people in work. Demographic problems have aggravated the situation. No European country has as yet successfully overhauled the structure of its social security system and eliminated this problem. Member States have resorted to stop-gap measures to balance the accounts, often with the State simply taking over the deficits.

One extreme solution to the deficit problem is to privatise certain services, replacing traditional insurance systems, where everyone contributes on "social solidarity" principles, by private, individual insurance schemes, where those who can afford it bolster themselves against illness or old age. Inequalities are bound to arise in such a system.

*** THE COST OF UNEMPLOYMENT**

The employment crisis has become a near-permanent feature of our economies, which have become incapable of absorbing pockets of local, regional or national unemployment. Spain is an eloquent example of the development teething problems faced in the South of Europe. There is net job creation in Spain, but there has been a massive influx of women onto the employment market.

New bonds of social solidarity must be forged, comprising income transfer and also help with professional and social integration, the establishment of training establishments, support for employment creation.

Social security cannot be left to the mercy of "market mechanisms". The refusal to pay the price of helping the unemployed would contradict the right to work and would force people to accept badly paid, low qualified jobs simply in order to survive. Such an option cannot solve the problems of high unemployment, nor tackle its causes.



3. A NORTH/SOUTH DIVIDE

One of the main effects of economic crisis has therefore been to exercise downwards pressure on salaries and work conditions. Liberal thinking holds that reduced labour costs will restore the competitiveness of European industry.

Some experts further stretch this thesis to show that the Southern Member States already have a comparative advantage, since employers' social security costs are generally on a lower level than in the North.

Some observers believe that the Southern Member States are deliberately practising a kind of "social dumping" to the disadvantage of their Northern neighbours. They have been accused of using their low social security contributions as bait to tempt foreign companies to their soil. Although the arguments lying behind this claim are questionable (see box below), they are at the heart of the debate on the advisability of a platform of minimum social rights.

SOCIAL DUMPING: A REAL WEAPON?

If a country were seeking a competitive advantage, it would choose a better weapon than social dumping. Social dumping is ineffective for a number of reasons:

- * lower social security levies means reduced national income and consequently weaker domestic demand.
- * when social cover is reduced, workers are less motivated and productivity falls, cancelling out the cost advantage.
- * pockets of poverty may emerge. The related social problems can generate much higher costs for social security systems.

Other factors affecting competition and ability to attract investment -the existence of sub-contracting networks, infrastructure, qualified labour force - are much more vital. The labour cost factor can however be decisive for some sectors requiring large numbers of low-qualified workers.



II. THE IMPACT OF THE SINGLE MARKET

1. THE SOCIAL FACE OF THE SINGLE MARKET

The Single European Act, which was adopted in 1985 and entered into force in 1987, gave fresh impetus to the process of European construction.

The completion of the internal market may seem to be first and foremost an economic venture. It will make a reality the free movement of goods, persons and capital, as provided for in the Treaty of Rome. The Single European Act nevertheless also makes specific reference to the need for greater economic and social cohesion within the Community.

However, perception of the social dimension has to date been limited at Community level to questions of adjustment or levelling upwards, countering the negative effects of economic integration.

The completion of the Single Market could lead to stronger competition and thus to greater specialisation of companies and mergers of industrial and tertiary sector businesses into larger groups. Some regions will have more difficulties than others attracting or holding on to economic activities. As a consequence, some will experience social-type difficulties in the short term (1).

Social security and labour cost factors are one - although not the only - of the elements in the balance of competitiveness between regions. The diversity characterising social cover within the Community is due to a range of factors: the proportion of social cover paid for out of the State budget, the absolute level of protection expenditure, the degree of solidarity towards certain population categories (notably the unemployed) or between generations (retirement problems), to mention but a few.

The splintering of social policies may become even more pronounced as each region or country tries to resolve the difficulties "in its own back yard". Paradoxically, the Single Market might stimulate further distancing between the Member States. Such movement, which would be difficult to halt, would run directly counter to the objective of European integration.

The current exchange system operating among European currencies within the "snake" will, in the long term, be replaced by a much more unified European monetary system. Countries will no longer be able to claw back losses in

(1) see "The Social Dimension of the Single Market", a special issue of Social Europe, DG V, EEC 1988

competitiveness through devaluation. There is a risk that reduction of costs will emerge as the most convenient way of replacing this.

2. 1987 BELGIAN PRESIDENCY CALLS FOR PLATFORM OF BASIC SOCIAL RIGHTS

The notion of a Community platform of basic social rights first surfaced in 1987, proposed by Belgium, then president of the EC's Council of Ministers.

A. BACKDROP TO THE PROBLEM

The Treaty of Rome clearly stated the need to ensure that work and employment conditions are constantly improved. Its provisions in this connection include:

- * the free movement of workers and their access to social security throughout the Community;
- * improvement in living and working conditions, the right to work and to social security systems;
- * guarantee of equal pay for the same work for men and women;
- * the creation of the European Social Fund to promote employment, training and mobility of workers;
- * the implementation of a common vocational training policy.

Despite this commitment when the Community was founded, very little progress has been made on the alignment of national legislation in the fields just mentioned.

When France was in the Presidential chair in 1981, it took the initiative of publishing a memorandum on the need to inject fresh impetus into the European movement. This memorandum contained the first mention of a "European social area", namely an area within which social legislation is harmonised. Its stance has yet to bear fruit (1). The majority of Commission proposals in the social sphere have ended up gathering dust on the Council table.

The implementation of the Single Act did however introduce qualified majority voting for proposals coming under Article 118A on workplace related measures.

(1) The three options were:

- a) employment should form the centrepiece of Community policy;
- b) social dialogue should be stepped up;
- c) cooperation and consultation on social protection should be heightened.



This is an important step, unlocking the door to significant progress in matters of health, safety and hygiene in the workplace. Cost and competitive arguments cannot prevail on such matters. However, the scope of Article 118A is limited.

The new concept of a "platform" of basic social rights rests on the idea of fundamental social rights and is derived from the Universal Declaration of Human and Citizens' Rights. The aim of such a platform is to create the legal foundations upon which social dialogue could be built at Community level.

B. THE ARGUMENTS IN FAVOUR

The supporters of the idea of a platform feel that it would revitalise the social aspects of European construction and would form a springboard for decisions in this field. In addition, it would help prevent "social dumping" by companies, sectors or States, which could be harmful to the Community.

* The theoretical roots of this idea lie in the gradual harmonisation of labour legislation. Once the platform is in place, harmonisation would be built upon a minimum foundation applicable throughout the Community. This consensus would reduce possibilities for "social dumping" and any accusation of this nature against a particular country would have to be borne out by hard facts.

* However, its practical approach would run counter to the strategy thread running through the Commission's recent work, which has replaced interminable discussions on new Community norms with attempts to achieve mutual recognition of legislation and regulations (provided that minimum deontological standards are satisfied).

The philosophy underlying the proposal for a platform of basic social rights is the same as that of the Beretta report, presented to the EC's Economic and Social Committee. The Beretta report identifies social dialogue as a prime objective and the path to harmonisation or alignment of social security systems.

The report suggested that a "framework Directive" listing workers' rights be adopted. This idea ran into a wall of opposition, due to divergences in the interests of the partners involved, economic differences and the variety characterising national social security systems.

C. THE ARGUMENTS AGAINST

Although the platform idea has received the support of two Northern Member States, it has encountered resistance from two different sources.

* On the one hand, company heads have expressed doubts that such a rigid system of social legislation is feasible in a climate of economic uncertainty. They point out that the European Social Charter, drawn up by the Council of Europe, has not yet been fully ratified. They believe that the idea of a framework Directive is interesting, but are concerned about its possible



contents. They feel that it is untenable if it forces companies which are only just keeping their heads above water to pay heavy social security costs.

* The strongest opposition, however, has come from the Southern Member States. They emphasize that labour costs are not the only factor determining competitiveness. They point out that some social security systems are more or less self-financing, whereas others are kept afloat by the national budget. Comparison is therefore not possible. Moreover, they maintain that a high level of social cover is even a competitive advantage, for it attracts qualified workers. Last but not least, the Southern Member States believe that the minimum platform would be a luxury which they could not afford, in light of their economic development and unemployment levels.

They are opposed to the very idea of imposing a minimum cover level, which they feel would not offer any protection whatsoever against social dumping. If downwards pressure on social security conditions is to be avoided, the minimum threshold should be set higher than the level currently prevalent in certain Member States.

However, the reservations expressed concern solely the quantitative aspect and there is no opposition to the concept that workers should have a "qualitative" guarantee of certain basic social rights.



A NEW COMMUNITY CHARTER OF BASIC SOCIAL RIGHTS

On May 17, 1989, the European Commission adopted the preliminary draft of a Community Charter of Basic Social Rights. This Charter is designed to contribute to the social dimension of the Single Market as stipulated in the EEC Treaties and more specifically in the Single Act.

The Charter is divided into the following chapters:

- * the improvement of living and working conditions
- * the right to free movement for employees and self-employed workers
- * work and pay
- * social cover
- * freedom of association and collective bargaining
- * the right to vocational training
- * equal treatment for men and women
- * the right of workers to information, consultation and participation
- * health and safety in the workplace
- * the protection of children and adolescents
- * rights for handicapped people
- * the rights of old people.

In order to give the Charter tangible form, the Commission has requested that it be granted a brief for the preparation and implementation, before June 30, 1990, of an action programme creating the first set of Community instruments in this field. The procedures and means provided for in the Treaty would be used in this connection. The document proposed by the Commission also suggests that the Heads of State and Government of the Community embody the contents of this social charter in a solemn Declaration.



III. GUIDELINES AND PROPOSALS

1. CLIMBING DOWN FROM THE PLATFORM

The opposition raised by the idea of a platform can only be overcome by its broadening into a concept contributing to the dynamism of Europe's economy.

The platform idea is that basic rights for workers should be considered as inherent and universal. Historically and culturally it has found its justification in legal arguments.

This is probably the main reason for its unpopularity. Economic efficiency has taken the upper hand over legal principles in today's society. Social solidarity and social policy must be tailored to economic efficiency or at the very least must not jeopardise it.

In the countdown to the Single Market, stronger economic homogeneity is therefore a stepping stone to harmonisation in the social sphere. This can only be achieved if the differences in potential between the Member States - notably in infrastructure and qualification levels - are reduced. The linking up of Single Market completion and greater Structural Fund intervention should be supplemented by Community policies with clear, integrated objectives.

2. GETTING INTO LANE

There must be acceptance that differences between social security systems and labour costs will be a feature of the Community's economies for many years to come. Uneven development levels are the main hurdle which must be cleared. The idea of a common goal towards which Member States can progress at their own speed should therefore accompany the "platform" notion. This will inevitably be a slow process.

The Community can still forge ahead in the social policy arena. There are several ways in which it can make sure that people are speaking the same language in the social policy sphere:

- * the drawing up of a European labour code;
- * the definition of a coordinated training and qualifications policy;
- * the use of new instruments to forecast the evolution of social security systems and pinpoint opportunities for aligning and harmonising social policies;
- * intensification of the social dialogue;



* analysis of the efficiency of policies in favour of the long-term unemployed, young people and women looking for work, those taking early retirement and so on;

* review of the way in which structural fund finance is spent and analysis of how to boost expenditure efficiency;

* last but not least, measures to improve working conditions. Vast progress can still be made at no extra cost or even with cost reduction through increased efficiency in the areas of hygiene, comfort and worker information and consultation. The foundations of offensive rather than defensive flexibility should be laid. Community activities in these different areas will all further the interlocking of Europe's economies.

FOUR CONCLUDING REMARKS

1. Although full harmonisation of national social security systems is clearly a long way off, movement towards alignment is both possible and desirable. This movement should be flexible enough to house the requirements and demands of the countries involved.

2. On the other hand, the idea that social costs are not productive and are harmful for competitiveness must be firmly refuted. A great deal of expenditure, notably in the field of training, is both social and productive.

3. The Community should equip itself with the means to monitor the social situation in the various Member States and decide where activities should be concentrated.

4. There must be more efficient dialogue and information both within and outside official bodies on the social policies which should be conducted at Community level.

COMMISSION OF THE EUROPEAN COMMUNITIES / DGV



THE BLACK ECONOMY IN THE INTERNAL MARKET



SUMMARY

I. BACKGROUND

1. DEFINITION OF ILLICIT WORK

2. ILLICIT WORKER IDENTIKIT

A. RESOURCEFULNESS AND EXPERIENCE: THE SKILLS OF THE TRADE

B. SOCIO-ECONOMIC FACTORS

C. FRONTLINE SECTORS

D. MOTIVES

II. THE IMPACT OF THE SINGLE MARKET

1. THE LOCAL SIDE TO ILLICIT WORK

2. LONG-TERM BALANCING OUT

III. GUIDELINES AND PROPOSALS



SYNOPSIS

Labour legislation varies from Member State to Member State within the European Community. Illicit work therefore takes on different forms and proportions, depending upon the national legal context.

In all instances, however, tax evasion is involved. In addition, a broad distinction can be drawn between North and South, with greater tolerance of undeclared work shown in the latter.

In both cases, the average illicit worker can be typified according to sector, factors stimulating emergence, advantages and risks run.

As things stand, one can only guess at the possible evolution of illicit work in a Single European Market. There is, however, a likelihood that the North-South polarisation deepen, giving an economic edge to the South.

In the long-term, however, the ironing out of differences between the Member States in the area of employment flexibility should counterbalance this trend and result in a situation where the factors contributing to the emergence of illicit work no longer exist.

The Community's role in this area is to protect the transparency of competition. In light of this, it could help strike a balance between illicit work and rigidity of the employment market which would be a reference point for the Member States. It must also prevent competition distortions in instances where the illicit economy blatantly ignores efforts to improve work conditions and protect workers' health and the environment.

Finally, some experts believe that illicit work is a phase which certain socio-professional categories must go through in adapting to change. The European Community could explore ways in which to integrate this positive feature into the drive for greater flexibility.



I. BACKGROUND

1. DEFINITION OF ILLICIT WORK

Illicit work can be taken as covering all forms of paid employment not respecting the legal, regulatory or contractual framework in force in the country where the work is carried out.

This definition must be qualified by two points:

A. Labour legislation currently varies from Member State to Member State within the European Community. Illicit work therefore takes on different forms and proportions, making comparison impossible. For example, in some Member States unemployed people receiving unemployment benefit are not allowed to accept any work supplementing this benefit, whereas in others, they are allowed to earn up to a certain sum.

B. The form taken by illicit work varies according to the legal and social norms governing a particular profession. Illicit workers can be divided into several categories:

- * self-employed workers operating outside of the law - without a patent, premises not declared, unauthorised nature of the work carried out and so on. This is generally accompanied by tax fraud (particularly VAT).
- * moonlighters carry out an undeclared secondary job, intent upon slipping through the social security contributions net.
- * people who are not officially members of the working population for age reasons (adolescents or retired people).
- * people who legally do not exist, namely illegal immigrants.

The definition of illicit work used in this paper excludes the entire non-market service sector, forming part of the domestic, associative and "social interaction" economies. The "black economy" should not be confused with the "informal economy".



SLIPPING THE TAXATION NOOSE

Tax evasion is the main, although not the only, cause of illicit work throughout the European Community. The scale on which the black economy operates in Italy, for example, is often explained by the general climate of tax evasion, which the government puts up with relatively indulgently. At the other end of the scale, in the Federal Republic of Germany, Denmark and even France, more severe punishment of tax evasion and a more disciplined mentality act as a deterrent.

The European Community is often typecast into two models when it comes to illicit work: the "Southern" model (Spain, Portugal, Greece and Italy) and the "Northern" model (the remainder of the Community). In the South, illicit work represents a significant part of the economy, whereas in the North, it exists only on the fringes. A number of variables enter the equation:

- * the nature and number of links between the illicit and official economies. The underground economy is in fact "fed" by resources diverted from the official sector.
- * the level of taxation.
- * the general behaviour of the tax authorities.
- * traditional socio-cultural attitudes to work and the State.



2. ILLICIT WORKER IDENTIKIT

Illicit workers throughout the Community do have some common features, despite their national characteristics.

A. RESOURCEFULNESS AND EXPERIENCE: THE SKILLS OF THE TRADE

Among the self-employed, illicit work requires knowledge of the tricks of the trade. Those engaged in illicit work often have several years' experience. This experience unlocks a network of professional contacts, enabling the person to get in touch with customers who might be interested in the goods or services on offer. Networks of companies making use of the black economy also exist.

In both cases - the illicit worker and the illicit "employer" - access to and success in this economic environment require a certain amount of resourcefulness and experience.

B. SOCIO-ECONOMIC FACTORS

Both men and women are operators in the illicit economy. However, women are in a majority in companies where illicit work practices are commonplace. On the other hand, more men are to be found in self-employed illicit work - either in the trades or in the provision of services.

Illegal immigrants are a major source of labour for the black economy. Very few unemployed people receiving benefit resort to illicit work. In some countries, however, it can constitute an additional source of income and is accepted as such by the authorities.

C. FRONTLINE SECTORS

There is a tradition of illicit work in the following sectors:

- * building and public works
- * agriculture (particularly in the south of Europe)
- * clothing industry
- * car and household appliance repair
- * services for individuals
- * tourism (especially in Greece).

Generally speaking, illicit work is much less a feature of the traditional manufacturing sector or of sectors using new technologies.



D. MOTIVES

Quite apart from tax or tax-related reasons, there are a number of clearly identifiable motives for resorting to the black economy:

- * Subsistence motives. Illegal immigrants, unemployed people no longer entitled to benefit or social "drop-outs" are forced to turn to illicit work because they have no other income and are living on the breadline. In countries where there is an officially set minimum income, the earnings of many illicit workers fail to reach this benchmark.
- * Unwillingness to be unemployed or, in the case of a secondary job, to accept a lower standard of living. Illicit work offers a way of avoiding a slide down the social and professional ladder.
- * The "make it on my own" syndrome. Although such motives are to be applauded, there are many failures in this category and people often find themselves in highly precarious situations. In addition, this desire for "independence", for being your own boss, is questionable, for people in this category often make use of the illicit economy as a bridge between two "official" jobs. This is especially true in the trades, among small shopkeepers and small businessmen/women.
- * Finally, indebtedness is also a factor frequently pushing people into illicit work.



II. THE IMPACT OF THE SINGLE MARKET

Illicit work is a problem for the Single Market because it represents unfair competition for those operating within the legal, social security and fiscal framework. This is why it must be dealt with at Community level.

The first question is whether a frontier-free Community will create an environment where illicit work will thrive or perish. At present, this question can only be answered using intuition and guesswork.

1. THE LOCAL SIDE TO ILLICIT WORK

Many experts believe that the Single Market will not have major qualitative or quantitative impact on illicit work in the short- and medium-term.

The main argument supporting this belief is the highly local nature of demand for illicit work. The black economy has to be discreet and cannot therefore be large-scale. Illicit work rarely stretches beyond local or regional boundaries, particularly in cases of secondary work and occasional services to individuals.

The geographical expansion of illicit demand is prevented by the fact that demand satisfaction requires one-to-one contact between customer and supplier (see box below).



THE TRUST FACTOR

Work conducted on the wrong side of the law requires mutual trust between the supplier and the buyer. Its very illegality makes a one-to-one relationship vital.

- * Information on illegal work supply can only be circulated by word of mouth.
- * The customer cannot make a claim against the supplier if the work turns out to be poorly done. The only guarantee lies in the reputation of the supplier, which can be checked out with friends, colleagues or relatives who have made use of his/her services.

For most illicit work services, the supplier has to travel to the place of execution. His/her ability to do this will depend upon the capacity to absorb transport costs. In addition, many illicit workers have a full- or part-time job, forcing them to stay in one place.

Thus the sectors where illicit work flourishes are those which operate in a local rather than international economic environment.

2. LONG-TERM BALANCING OUT

In the longer term, on the other hand, socio-economic diversity between different member states could stimulate greater mobility of both individuals and firms.

- * in cases where individuals believe that the gains of illicit work in another Member State compensate for the disadvantages of emigration, they might be tempted to "try their luck".

- * similarly, if recourse to the black economy in another Member State would represent considerable cost savings, firms might decide to uproot their operations base.

There would therefore be a dual mobility pull in the longer term. First of all, from the South to the North of Europe, as transfrontier "export" of seasonal labour becomes more commonplace. Secondly, from the North to the South, as some companies move away to take advantage of more flexible labour legislation in the Southern Member States.

These two movements should logically balance out, with greater flexibility of labour markets leading to greater homogeneity throughout the Community as a direct result of the Single Market.

- * In the Southern Member States, the attraction force exercised by more flexible and more tolerant labour legislation, including that applied to illicit work, will give new dimensions to the labour market, raise living standards and, in the long term, discourage illicit work. It will do this by gradually raising wages and therefore eroding the initial competitive advantage of these countries.



* In the North of Europe, the pressure exercised by this labour cost competition will force the dismantling of more rigid employment structures.

Balancing out will either be a simple evolutionary process or will be the result of a deliberate policy on the part of the Member States and the Community to find a compromise between the situations existing at present.



A SINGLE EUROPEAN MARKET: INCENTIVE OR DISINCENTIVE?

Discussion of the impact which the Single Market will have on the black economy revolves around the following points:

A. Is there a risk that the Single Market will give further scope for expansion of illicit work in sectors where it is already very commonplace? In the clothing and leather goods sectors, for example, multiple sub-contracting is the norm.

- * To some extent the European dimension of such practices already exists, as demonstrated by the example of the mobilisation of Greek undeclared workers to manufacture the uniforms of the Belgian and Dutch armies.

- * The fraudulent practices in European traditional manufacturing sectors are perhaps more harmful externally than internally, in that they represent unfair competition for developing and industrialising countries. This leads on to the question of where Europe should go from here: should it attempt to withstand competition from countries where labour costs are low or should it rather invest its efforts in high value added products? If the second option is chosen, Europe must accept the consequences.

B. What impact will the abolition of border controls at internal frontiers have?

- * The building industry is a "risk sector" in this respect. A frontier-free Community may incite it to organise mobile teams of Community illicit workers or illegal immigrants, moving from site to site throughout the EEC.

- * There may also be a steady trickle of illegal extra-EEC immigration, through some access points where controls are not so strict.

- * On the other hand, freedom of movement should stimulate greater migration of workers from low-income, high-unemployment regions to more favoured regions. The existence of this option may make illicit work less attractive.

C. There must be harmonisation of the means deployed against fiscal fraud for the liberalisation of capital markets to make sense.

The same is true for VAT collection legislation.

D. Finally, the levelling upwards of some health, worker safety and environmental protection regulations can push some activities underground. This has already been seen in Italy and Greece, where the use of certain dangerous products has re-emerged in underground clothing workshops. Information is a useful weapon against this trend. Workers must be informed of the risks that they are running.

The maintenance of good working conditions will be one of the challenges for the Single Market. It could be met by adopting minimum regulations embodied in a "framework" work contract valid throughout the Community.



III. GUIDELINES AND PROPOSALS

Community action on illicit work is justified for reasons of both principle and practicality. In the first instance, its competition powers legitimate its interest in this subject. In the second, since the bulk of Community resources are made up of a levy on the VAT collected by the Member States, policies which seek to draw undeclared work into the official economy and thus halt tax evasion are clearly to its advantage.

Any EEC action on illicit work would have to be adapted to local and national situations. The "laundering" of the black economy would affect the Member States differently, depending upon overall development levels and room for flexibility.

* Some experts have suggested that the creation of "free zones" could further the objective of generating stable and declared employment. These free zones would give companies and individuals a "breathing space" where they could make the transition to a more stable socio-economic situation.

* Other experts believe that part of the black economy is a natural side-kick of any economy governed by fiscal and social security regulations. If this viewpoint is accepted, then the objective should be to give those involved every opportunity to evolve professionally in order to leave precariousness behind.

There is therefore a large policy vacuum to be filled. The European Commission can raise awareness of the need to act by carrying out the necessary research and proposing policies.

European Communities — Commission

Social Europe — Supplement
The social aspects of the internal market — Volume II

Luxembourg: Office for Official Publications of the European Communities

1989 — 90 pp. — 21.0 × 29.7 cm

DE, EN, FR

ISBN 92-826-0894-8

Catalogue number: CE-NC-89-007-EN-C

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ISBN 92-826-0894-8



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