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Recent economic trends
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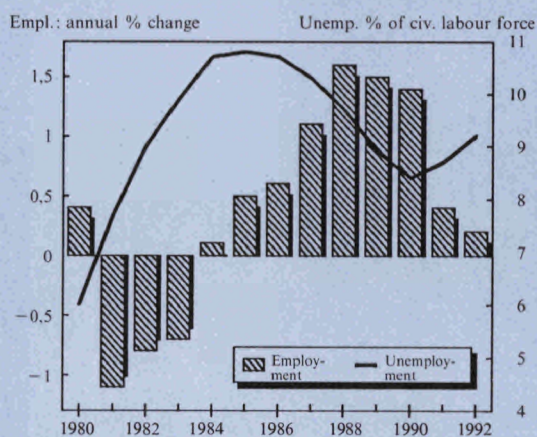
*In this number:
Recent trends in
employment and unemployment*

SUMMARY

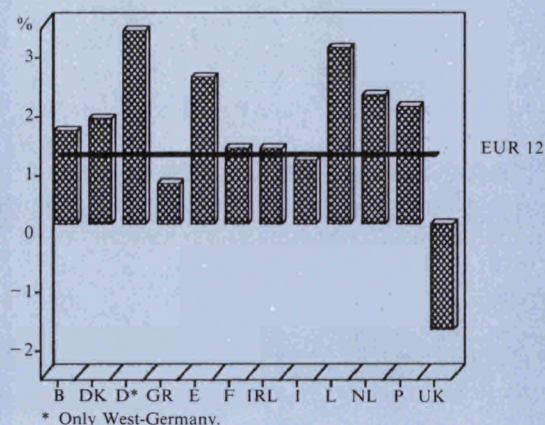
- The downward trend in the Community's rate of unemployment, evident since the middle of 1985, was halted at the end of 1990. Unemployment in 1991 is forecast to increase to 8.7 % of the civilian labour force up from 8.4 % last year. A further deterioration of ½ a percentage point to 9.2 % is forecast for 1992. (See Graph 1).
- A cyclical downturn in a number of Member States combined with more difficult trading conditions in some of the Community's main external markets has resulted in a slow-down in GDP and employment growth in the Community. GDP growth of 1¼ % and employment growth of less than ½ of a % in 1991 compare with rates of GDP and employment growth of 2¾ % and 1½ % respectively in 1990.
- Since the extent and speed of the change in the economic conditions being faced by individual Member States has not been symmetric over the past year, (see Graph 2) it is not surprising that patterns of changes in employment and unemployment have also been divergent. Employment growth in Germany, Luxembourg and the Netherlands of 1 % or more is forecast for 1991 compared with a Community average increase of only 0.4 %. While the average Community unemployment rate for 1991 may increase by a ¼ of a percentage point, Germany's, the Netherlands' and Portugal's are forecast to decline by ½ a percentage point or more while Denmark's, Greece's, Ireland's and the U.K.'s will go in the opposite direction and increase by at least 1 percentage point.
- While cyclical employment conditions in the Community in 1991 and 1992 remain unsatisfactory, in the medium term the positive employment trends evident in the second half of the 1980s should be re-established. Despite recent worrying trends in terms of real wage increases, the Community's underlying growth fundamentals remain good and, assuming that the previous pattern of real wage moderation can be quickly re-established, and appropriate structural policies

can be implemented to improve labour market flexibility, strong levels of employment creation can be confidently predicted. Such job creation is urgently needed given the persistently high rate of Community unemployment and the forecasted continuation of strong labour force growth.

GRAPH 1: EUR 12 - Employment, Unemployment



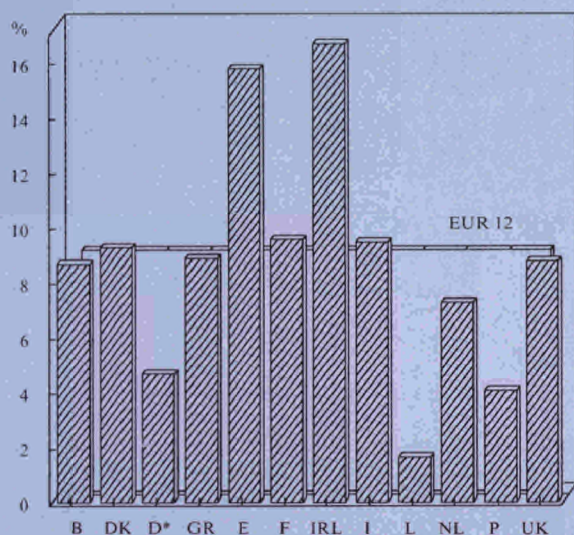
GRAPH 2: 1991 - GDP growth
(annual percentage change)



Introduction

Unemployment continues to represent a major policy challenge for the Community. A steady upward movement in the monthly rate of unemployment has been occurring since the end of 1990. On an annual basis unemployment is forecast to average 8.7 % of the civilian labour force in 1991, up from 8.4 % last year (see Graph 3). The increase in the present year breaks a downward trend which has been in evidence since the mid-1980s. 1992 is not forecast to bring any amelioration to this negative tendency with a further ½ of a percentage point being added to the Community rate of unemployment. Slower rates of increase in employment creation combined with continuing strong expansion in the numbers entering the Community's labour force have contributed to this increasingly unfavourable unemployment scenario. The turnaround in employment fortunes (the 1991-92 annual average increase in employment is the lowest since 1984) results principally from the short-term economic difficulties currently being faced by the Community economy as a whole. Five years of average GDP growth of 3 % is forecast to be replaced by growth of 1¼ % this year with a slight recovery forecast for 1992.

GRAPH 3: 1991 - Unemployment rates
(% of civilian labour force)



* Only West-Germany.

Short-term difficulties with regard to unemployment, however, must not distract attention either from the continuing healthy underlying condition of the Community economy or from the longer-term labour market reforms started upon, in the course of the 1980s, in a number of Member States. Medium-term GDP and employment prospects remain good with a return to rates of output and employment growth of 3 % and 1 % confidently expected to be realized. It is essential that the present economic policy mix, which has been so effective throughout the second half of the 1980s, in terms of growth and employment creation, continues to be adhered to. Vigilance is necessary to ensure protection of the underlying growth fundamentals, with recent large and unjustified increases in real unit labour costs a particularly worrying development in this regard. A sound macroeconomic policy mix must be complemented by micro-economic initiatives, such as the 1992 programme, aimed at increasing the efficiency and flexibility of the Community economy as a whole and the labour market in particular.

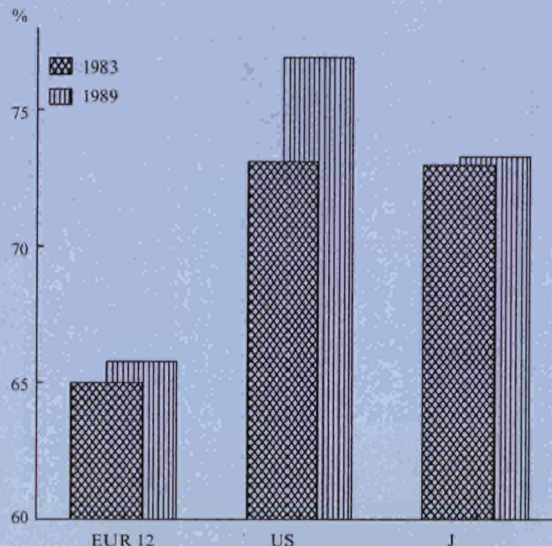
Existing and expected labour market developments in the Community will be analysed in the following paragraphs with data for the most recent years and forecasts until the end of 1992 included where appropriate. Labour force, employment and unemployment trends in the individual Member States are discussed with the overall Community figures being compared internationally with those in the US and Japan. The policy implications to be drawn from the data presented will be given in the final section where the essential features of a medium-term employment strategy for the Community will be indicated.

Labour force developments

Variations in the number of people moving into, and out of, the Community's labour force are determined by changes in the working age population and participation rates. Changes in the working age population are relatively straightforward to predict being affected by normal demographic influences and by trends in migration. Participation rate changes, however, are much more difficult to assess since an individual's actual willingness to seek employment is dictated by a multitude of economic and social influences. Given the low level of Community participation rates relative to equivalent rates in the US and Japan, (see Graph 4), a lot of scope exists for increases to occur in the Community, thereby counterbalancing any levelling off in the increase in the population of working age. A continuation of the trend towards higher participation rates for women, evident over the period 1983-1988, and a gradual improvement in economic conditions in the Community could ensure that overall participation rates in the Community quickly move towards the levels presently observed in other industrialized countries.

Short-term prospects for a significant upward movement in Community participation rates are, however, not favourable since the latter are influenced by the general economic situation in the individual Member States and in the Community economy as a whole. The Community's present, relatively depressed, economic condition is consequently not only affecting employment and unemployment developments but also labour force participation rates and other labour supply influences such as migratory trends.

GRAPH 4: Participation rates EUR 12, US, Japan
(Labour force as % of population of working age)



Sources: Commission, OECD.

TABLE 1: International Comparison of Labour Force, Employment and Unemployment Trends 1988-1992

	1980-88	1989	1990	1991**	1992**
Labour force⁽¹⁾	Percentage change				
EUR	0.8	0.6	1.0	0.6	0.6
USA	1.6	1.8	0.8	0.8	1.4
Japan	1.1	1.7	1.8	1.6	1.4
Employment⁽²⁾	Percentage change				
EUR	0.2	1.5	1.4	0.4	0.2
USA	1.7	2.3	0.5	-0.8	1.0
Japan	0.9	1.9	2.0	1.6	1.5
Unemployment⁽²⁾	Percentage of labour force				
EUR*	9.4	8.9	8.4	8.7	9.2
USA	7.5	5.3	5.5	6.7	6.9
Japan	2.5	2.3	2.1	2.2	2.2

Sources: (1) OECD, (2) Commission.

* Civilian labour force.

** Commission forecasts.

Overall, the Community's labour force is expected to grow by 0.6 of a percentage point over the period 1991-92, which is only slightly lower than that witnessed annually over the period 1980-88. In relation to international trends this increase is substantially lower than that experienced in the United States or Japan (see Table 1). Over the period 1980-88 the US labour force grew at an annual average of 1.6 % which is double that witnessed in the Community. The Japanese labour force grew at an annual average of over 1 % over the same period. Furthermore, short-term forecasts for the latter countries in 1991 and 1992 show a continuation of the strong expansion experienced in the 1980s with both the US and Japanese labour forces forecast to grow at over 1 % per annum over the period.

Employment

While the Community's labour force is forecast to grow in 1991 and 1992 at rates which are low by international standards the increase is nevertheless roughly equivalent to that which occurred in the Community in the 1980s. Therefore, it is clear that reductions, in the Community's rate of unemployment, similar to those achieved in the second half of the 1980s, can only be secured by the maintenance of the high employment growth witnessed over that period. Such employment growth is unfortunately not forecast to occur this year or in 1992. The forecast increase in both years is presently envisaged at only 0.4 % and 0.2 % respectively (see Table 2). This temporary halt in employment creation is a lagged response to the pronounced slow-down in the rate of GDP growth in the second half of 1990 and the continuation of these depressed economic conditions into the present year. While the Community's ability to generate employment has improved substantially (as shown by the lowering of employment thresholds), it is nevertheless evident that its present rate of economic activity is insufficient to produce the numbers of jobs required to absorb all new entrants to the labour force occurring in both 1991 and 1992, in contrast to the situation which pertained in the years up to 1990. Although the forecasted slight pick-up in economic activity towards the end of 1991 and in 1992 should begin to favourably influence employment prospects in the course of next year, its impact will be insufficient to significantly affect employment opportunities in 1992 as a whole.

While the latest forecast for employment growth in the Community in 1991 is only 0.4 % it must be stressed that this

TABLE 2: Total Employment (annual % changes)

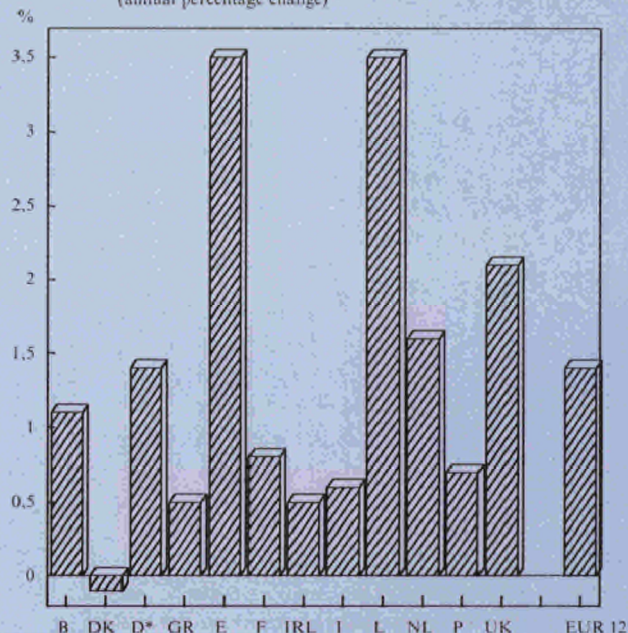
	1983-86	1987-90	1991*	1992*
Belgium	0.0	1.1	-0.3	0.0
Denmark	1.8	-0.1	-1.0	0.0
West Germany	0.2	1.4	2.8	1.0
Greece	0.7	0.5	-0.8	-0.1
Spain	-0.7	3.5	0.7	1.2
France	-0.4	0.8	0.5	-0.2
Ireland	-1.5	0.5	0.0	0.3
Italy	0.7	0.6	0.9	0.5
Luxembourg	1.1	3.5	1.9	1.1
Netherlands	0.4	1.6	1.0	-0.1
Portugal	-1.4	0.7	0.9	0.0
UK	0.4	2.1	-2.6	-1.1
EUR	0.1	1.4	0.4	0.2

* Commission Forecasts.

average conceals large differences in the respective performances of individual Member States. Employment growth in Germany (made possible by an increased availability of skilled labour from East Germany), Luxembourg and the Netherlands, will grow at over 1 % in all cases with Germany growing at the same high rate as 1990, i.e. 2¾ %. The very negative employment picture for the United Kingdom in 1991, resulting from the severe recessionary conditions currently being experienced in that Member State, is strongly influencing the overall figures for the Community. The numbers employed in the United Kingdom are forecast to decline by 2½ percent in 1991. Excluding the latter country, the rate of employment growth in the rest of the Community increases from 0.4 % to 1.1 %.

Notwithstanding the short-term slowdown in employment growth, the Community's healthy underlying economic position should ensure an early return to the high rates of job creation which characterized the period 1987-90 (see Graph 5).

GRAPH 5: Employment: 1987-1990
(annual percentage change)



* Only West-Germany.

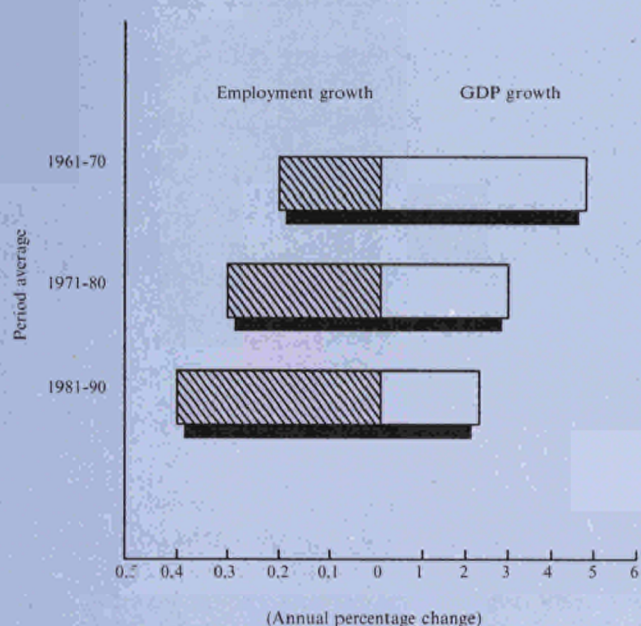
The 12 Member States averaged a rate of annual employment growth of 1.4 % over that period which compared favourably with the rates achieved in both the United States and Japan. This is in stark contrast with the first half of the decade when structural disequilibria and depressed levels of economic growth led to decreases in the total numbers employed in the Community. The dismal performance of the early 1980s ensured that for the decade as a whole employment numbers in the Community grew on average at only 1/3 of the increase registered in Japan and less than 1/4 of the rate of increase in the United States. With the fundamental changes which occurred in the Community's economy in the second half of the 1980s the Community was able to attain an employment growth comparable to that being achieved internationally. Overall for the period 1987-90, the average annual change in employment creation in the Community,

while still lagging behind that of the United States, was similar to that achieved in Japan.

The Community's newly-found dynamism in employment creation has resulted in a continuing reduction in the threshold above which increases in the rate of economic growth lead to expansion in the number of jobs created (see Graph 6), a threshold which has fallen from an annual rate of over 4 % in the period 1960-73 to under 2 % in the 1980s. This substantial increase in the employment content of growth has resulted from a number of interrelated factors including the on-going structural shift in the Community economy towards the services sector, which is particularly employment intensive, reductions in the average working time per person employed (the increase in the numbers employed on a part-time basis is particularly important in this regard) and the slower factor substitution of capital for labour.

Over the period 1984-1988 more than 7¼ million jobs were created in the services sector which is equivalent to an annual average increase of 1½ million jobs. Over the same period industrial employment remained static while the decline in the numbers employed in agriculture continued unabated, with 1¼ million workers leaving the sector. The performance of industry, while appearing subdued in comparison to that of services, is nevertheless noteworthy since in the five year period up until the mid-1980s the Community was losing an average of 1 million industrial jobs per year. Furthermore, it should be mentioned that one important non-structural factor for the rapid increase in service sector employment throughout the decade has been the increasing tendency of firms in the manufacturing sector to contract out service-type activities to firms in the professional services sector. Overall therefore, the percentage shares of agriculture, industry and services in the Community's employment total have changed radically over the 1980s, with the Community's transformation into a tertiary sector economy continuing apace (see Graph 7). In 1980, the relative employment shares of agriculture, industry and services were 10 %, 38 % and 52 % respectively. By 1988, the percentage share of services employment had grown to 60 percent with industry and agriculture falling to 33 % and 7 % respectively.

GRAPH 6: Employment Intensity of Growth



GRAPH 7: EUR 12: Employment, sectoral breakdown

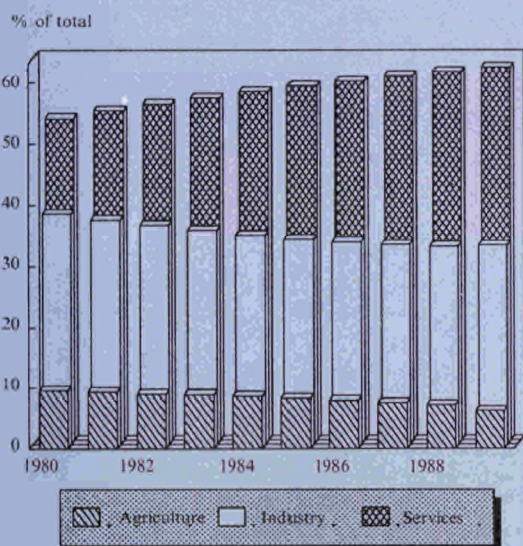


TABLE 3: Part-time employment as % of total employment

	1983	1985	1987	1988	1989
Belgium	8.1	8.6	9.9	9.8	10.2
Denmark	23.8	24.3	24.3	23.7	23.4
West Germany	12.6	12.8	12.7	13.2	13.4
Greece	6.5	5.3	5.5	5.5	4.4
France	9.7	10.9	11.8	12.0	12.1
Ireland	6.7	6.5	7.2	8.0	7.5
Italy	4.6	5.3	5.6	5.6	5.7
Luxembourg	6.7	7.2	7.2	6.4	6.9
Netherlands	21.2	22.7	29.5	30.4	31.7
United Kingdom	19.0	21.2	22.0	21.9	21.7
EUR 10	12.1	13.1	14.1	14.3	14.4
of which:					
Male	2.8	3.4	4.1	4.1	4.1
Female	27.6	28.8	29.7	30.1	30.2

Source: Eurostat, Labour Force Survey.

A further contributory factor to the growth of services employment throughout the 1980s has undoubtedly been the parallel trend towards increasing part-time employment (see Table 3). Part-time employment in the Community (excluding Spain and Portugal) as a percentage of total employment has risen from 12.1 % in 1983 to 14.4 % in 1989. 30 % of all female employees work on a part-time basis. Over the period 1983-1989, half of the net increase in employment in the Community (49 %) was accounted for by part-time work. In some Member States such as Denmark, the Netherlands and the United Kingdom, part-time employment represents over 20 % of total employment and over 40 % of all female employment. While the growing share of part-time employment in the total employment of the Community reflects a healthy increase in the degree of labour market flexibility in the Member States, reduced unemployment figures have also to be evaluated against this background.

Unemployment

Even allowing for the impact of increased part-time employment, the Community's success in reducing unemployment over recent years has been substantial (see Table 4). Following the steady rise in the Community's rate of unemployment from less than 5½ % at

the end of the 1970s to nearly double that level by 1985 (10.8 %), continuous reductions in that rate have been achieved in each year over the subsequent 5 year period up until 1990. This process, as mentioned earlier, has been temporarily halted due to the present cyclical slow-down in the Community's economic growth and slight increases in the unemployment rate are forecast to occur in both 1991 and 1992. A return, in the medium-term, to rates of GDP growth of 3 % or more should ensure that the present deterioration in the Community's unemployment situation is short-lived and that a downward trajectory in the rate of unemployment is firmly re-established.

Throughout the 1980s, annual average unemployment in the 12 Member States was 9½ % which was more than double the average of the 1970s. Over the same period, U.S. unemployment was a little over 7 % with Japan experiencing very low unemployment of 2½ % per annum. The Community average of 9½ % conceals two contrasting trends, namely the sharp upward movement which characterized the first half of the 1980s and the stabilisation and subsequent reduction in the rate in the second half of the decade. Following a peak of nearly 11 % of the civilian labour force in June 1985, unemployment in the Community moved steadily downwards over the subsequent months to 10 % in January 1988. The pace of decline then started to accelerate with the rate falling by nearly 2 percentage points to a low of 8.3 % in November of last year. However, with the continuing deterioration in both domestic and international economic conditions, unemployment has unfortunately started to rise again from the end of 1990. The most recent monthly data for 1991 shows unemployment at 8.9 % (August 1991).

The strong downward movement in unemployment from the beginning of 1988 to the end of 1990 for the Community as a whole was broadly mirrored in all Community countries with the notable exception of Denmark. Over that period, Danish unemployment moved in exactly the opposite direction, rising from 5.8 % of the civilian labour force in January 1988 to 8 % by the end of last year. Economic growth in Denmark virtually stagnated since 1986, underlining structural inadequacies in the Danish economy in reducing major economic imbalances which had built up over the period 1982-86. While the unemployment trend in all the other eleven Member States was roughly equivalent over the three years 1988-90, divergences started to emerge in this otherwise convergent pattern from the middle of 1990 as the degree and pace of the slow-down in economic activity started to affect employment prospects in an asymmetric fashion. These divergences have become more accentuated in the first 8 months of 1991.

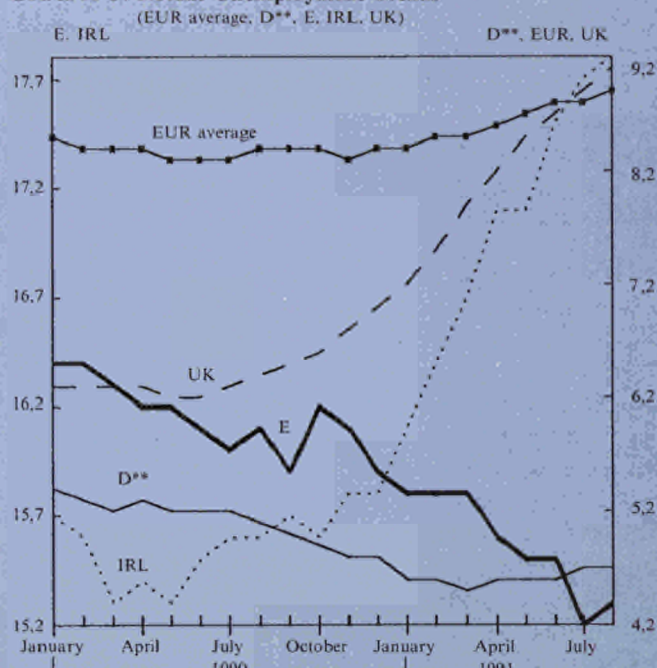
An analysis of the respective performances of individual Member States over the period mid 1990 — mid 1991 highlights the extent of divergences from the Community's overall trend. For example, despite recent sharp increases in French and Danish unemployment, the overall trend for the period for both these countries has been fairly similar to that experienced in the Community as a whole. Trends in Italian unemployment, despite difficulties in analysing figures which have been highly erratic, are also not substantially different from the Community average. This conclusion also applies to Belgium and Luxembourg. Four Member States, however, the U.K., Germany, Ireland and Spain* diverged substantially from the trend for the Community as a whole over the period and as a result warrant a more detailed examination (see graph 8).

TABLE 4: Unemployment as a % of the Civilian Labour Force (1979-92)

	1979	1985	1988	1990	1991*	1992*
Belgium	7.0	11.6	10.0	8.1	8.6	8.6
Denmark	4.8	7.2	6.5	7.9	9.2	9.0
West Germany	2.7	7.1	6.1	5.1	4.6	5.0
Greece	1.9	7.8	7.6	7.5	8.8	9.3
Spain	8.8	21.8	19.3	16.1	15.7	15.5
France	5.8	10.2	9.9	9.0	9.5	10.1
Ireland	7.8	18.2	17.4	15.6	16.6	18.1
Italy	7.2	9.4	10.8	9.8	9.4	9.5
Luxembourg	2.4	2.9	2.1	1.6	1.6	1.6
Netherlands	5.7	10.5	9.3	8.1	7.2	7.7
Portugal	7.9	8.8	5.6	4.6	4.0	4.2
UK	4.6	11.4	8.5	6.4	8.7	10.4
EUR	5.4	10.8	9.7	8.4	8.7	9.2

* Commission Forecasts.

GRAPH 8: Recent Unemployment Trends*



* Unemployment as % of civilian labour force.

** Only West-Germany.

* NOTE: Monthly unemployment data for the period under discussion is not available for either Greece or the Netherlands.

TABLE 5: Unemployment

	1983			1985			1989			1990		
	Male	Female	Youth	Male	Female	Youth	Male	Female	Youth	Male	Female	Youth
Belgium	8.6	19.0	27.2	7.5	18.4	24.9	5.4	13.3	17.0	5.2	12.8	16.0
Denmark	8.2	10.5	17.3	5.6	9.1	10.6	6.9	8.6	10.8	7.2	8.8	10.9
West Germany	6.2	8.0	11.8	6.1	8.7	10.3	4.3	7.4	5.3	3.9	7.0	4.5
Greece	5.9	11.8	23.0	5.6	11.7	23.9	4.6	12.4	24.8	4.6	12.4	24.8
Spain	16.4	20.8	42.6	20.0	25.2	48.0	12.8	25.1	34.0	11.9	24.1	31.9
France	6.3	10.8	21.5	8.4	12.6	25.7	7.0	12.4	20.0	6.7	11.9	18.6
Ireland	14.6	16.5	22.3	17.5	19.7	26.1	15.6	16.7	21.9	15.0	16.8	21.6
Italy	5.8	14.4	30.1	6.3	15.7	31.8	7.1	16.9	31.4	6.5	15.7	29.2
Luxembourg	2.6	5.3	8.1	2.1	4.3	6.7	1.3	2.7	4.1	1.2	2.5	3.9
Netherlands	11.1	14.7	—	9.2	12.8	—	6.5	12.1	—	5.8	11.9	—
Portugal	5.3	11.8	18.5	6.7	11.7	19.9	3.3	6.8	11.1	3.2	6.3	10.0
United Kingdom	11.9	9.9	20.2	11.7	11.0	18.3	7.2	6.6	9.8	7.0	5.7	9.3
EC	8.7	11.8	22.8	9.4	13.0	23.1	7.0	11.7	17.3	6.6	11.1	16.1

The deterioration in the UK unemployment trend has been vigorous and relentless since its commencement around the middle of last year. The overall disimprovement in the Community's unemployment stems in no small part from the pronounced negative trend evident in this particular Member State. UK unemployment started to rise in the third quarter of 1990 and accelerated sharply towards the end of the year in parallel with the severe contraction in economic activity which occurred over that period. Recessionary conditions have resulted in a severe shake-out in the UK labour market with unemployment rising from 6.2 % of the civilian labour force in June 1990 to its present level in August 1991 of 9.1 %. Present Commission forecasts suggest an annual average unemployment rate in the UK in 1991 of 8.7 % with a further significant deterioration to 10.4 % in 1992.

Unemployment developments in Germany have also not gone in tandem with the overall upward tendency for the Community as a whole. The jobless total in Germany continued to fall in the second half of last year and also in the first quarter of 1991, with the rate being reduced from 5.2 % in June 1990 to 4.5 % in March 1991. The strong expansionary impulses emanating from the unification process were clearly the main factor influencing this persistent downward movement. Since March the slowdown in economic expansion is beginning to be reflected in the German unemployment figures with the rate rising to 4.7 % in August. At this point it should be mentioned that the data on labour market developments in Germany refer only to the economy of West Germany. The employment and unemployment data for the five new East German Länder are not included. Eurostat figures for the Community as a whole also only refer to West Germany.

Unemployment trends in two of the least favoured Member States, Spain and Ireland, have also sharply deviated from the Community norm. The experiences of both countries are interesting but for entirely contrasting reasons with the on-going reduction in Spanish unemployment being sharply counter-balanced by the contrary Irish experience. Unemployment in Spain continued to fall up until July 1991. Despite a small increase in August, Spanish unemployment, reflecting the continuing buoyant state of domestic demand, has been reduced by almost one percentage point since the middle of last year. Ireland, on the other hand, over the same period, has seen unemployment rise by an alarming 2½ percentage points to 17.8 %. A sharp slow-down in both domestically and externally generated economic growth

has acted to elevate Ireland's already high unemployment to a level which is now double the Community average.

A more disaggregated analysis of recent unemployment trends shows clearly that certain groups within society have a higher risk of being afflicted by unemployment at some period during their working life and potentially for an extended period of time. For example, while overall unemployment for May 1991 was 8.7 %, the rate for men was only 7 % compared with the female jobless total of over 11 %. Furthermore, youth unemployment (e.g. under 25) at 16.5 % is nearly double that for all ages combined. Longer-term time series with regard to the percentage share, in the overall unemployment total, of female/youth unemployment and also of long-term unemployment (defined as without work for 12 months and more) are given in tables 5 and 6. In 1985, for example, overall unemployment in the Community was 10.8 %. However, within this total, the average rate of female unemployment was 3½ percentage points higher than the male total (13 % vs 9½ %). Furthermore, while unemployment among males declined by 30 % over the subsequent period to 1990, the percentage decline in the equivalent female rate was only 15 %. The May 1991 data highlighted the fact that unemployment among all people under 25 was nearly double that for the civilian labour force as a whole. This relationship has unfortunately been evident throughout the entire period from 1985-90. In 1985 unemployment for the under 25s was 23.1 % vs 10.8 % for the labour force as a whole, with the equivalent figures for 1990 being 16.1 % and 8.4 % respectively. The male/female discrepancy in the overall unemployment figures is also endemic in the figures for youth unemployment. In 1990 female youth unemployment was 4½ percentage points higher than the equivalent rate for males.

Developments with regard to long-term unemployment are particularly disturbing, highlighting, as they do, the extent of the structural deficiencies which continue to plague the Community's labour markets. The long-term unemployed represented 46.6 % of the unemployment total in 1983. This percentage increased to over 53 % in 1989. An increase in the share of long-term unemployment at a time of overall improvement in the jobless total highlights the deep-seated nature of the unemployment problem which the Community's policy makers are confronted with. Continued efforts to provide effective retraining and re-employment opportunities are called for. The long-term unemployed need to be kept in constant contact with the labour market through the use of career guidance and job placement services. Their capacity to work must be safeguarded.

TABLE 6: Long-term unemployment

	1983	1985	1987	1988	1989
Belgium	65.8	69.2	74.6	77.0	76.0
Denmark	32.2	38.5	29.5	27.3	24.6
West Germany	39.3	47.9	48.1	46.7	49.0
Greece	34.8	46.3	45.8	48.1	52.4
France	42.5	46.8	49.4	49.0	48.1
Ireland	36.4	64.1	66.1	65.3	66.7
Italy	56.3	65.8	66.3	69.0	70.2
Luxembourg	33.9	37.1	34.2	28.0	37.7
Netherlands	49.4	58.7	45.7	49.3	49.1
United Kingdom	46.6	48.1	45.2	44.2	40.2
EUR 10	46.6	52.9	52.6	53.1	53.1

Source: Eurostat, Labour Force Survey.

Medium-term employment strategy

While agreeing that good progress has been made over the period 1985-90 in terms of unemployment reductions, it must however be admitted that severe difficulties continue to persist such as the problem of long-term unemployment and the still unacceptably high overall jobless total in the Community. Community unemployment of 8.4 % in 1990 compares with an annual average in the 1960's of 2½ %. The 1990 figure also compares unfavourably at the international level where U.S. and Japanese unemployment was 5.5 % and 2.1 % respectively. With the persistence of high unemployment, and the forecasted continuing inflows into the Community's labour force, due to demographic factors and to growing participation (the EC labour force participation rate is close to 10 percentage points lower than the equivalent U.S. and Japanese figures), it is clear that continuing efforts to promote employment growth, combining both macro and microeconomic policy measures, will be required in the medium-term.

The success of the macroeconomic policy strategy put in place in the mid-1980s, which revitalized not only the European growth performance but also the employment content of growth is a strong case for continued adherence to the policies of that era. The strategy pursued brought about a large improvement in the Community's growth fundamentals. A prolonged period of labour cost, and price, disinflation was experienced in most of the Member States. There was a fundamental change in wage behaviour as a result of the greater credibility which economic agents had in the anti-inflationary policies pursued by a majority of Member States and wage claims incorporated the lower and more realistic price expectations which the new regime generated. Given the more sensible pattern of wage developments there was a strong recovery in profitability indicators, such as net return on the capital stock, in the second half of the 1980s. Adequate rates of

return on fixed capital are essential to the maintenance of favourable conditions for continued growth in job creating investment.

With the persistence of significant labour market disequilibria, continuing wage moderation will have to remain a key feature of any medium-term employment strategy in the Community. The high real wage increases witnessed in 1990 and 1991 have resulted in an increase in real unit labour costs for the first time since 1981. These increases have not, as yet, significantly offset the progress made in the 1980s. However, an obvious risk exists that if these negative tendencies were to become more entrenched, the profitability of investment could be eroded and price stability could be affected, with the result that the medium-term growth and employment potential of the Community could be significantly undermined.

Rising wage pressures, against a background of historically high unemployment rates, suggest that fundamental reforms are still needed to improve the flexibility of Community labour markets. Increased efforts are needed to reduce existing structural deficiencies, thereby ensuring that the supply of, and demand for, labour is matched more effectively. A mismatching of training and of skills requires greater importance to be attached to occupational training and retraining schemes in a large number of Member States. Such measures will help reduce existing discrepancies which, on the one hand, have arisen from an absence of sufficient numbers of workers whose skills are in heavy demand or, on the other, from a supply of manpower with unwanted or redundant skills. This action is all the more urgent since evidence exists that the prolonged nature of the economic upturn in the 1980s may have led to increasing mismatches in the labour market and could consequently be a factor in the upward movement in per capita wage settlements in the Community, in evidence since 1990.

Furthermore, improvements in labour market flexibility will become increasingly important in the context of moves towards Economic and Monetary Union in the Community and the consequent foregoing of the exchange rate as an instrument of economic adjustment for the Member States. The emergence of severe regional problems can only be prevented with supply side reforms to make wage behaviour more responsive to changes in labour market conditions. If labour costs adjust relatively flexibly, then the costs of absorbing country specific shocks will be minimised, thereby acting as an effective substitute for the cushioning effect previously provided by the nominal exchange rate instrument.

23 October 1991

Principal economic policy measures — September 1991

Community (EUR 12)

21.9 Informal meeting of EC Finance Ministers in Apeldoorn makes good progress in removing a number of obstacles to the successful completion of the Intergovernmental Conference on Economic and Monetary Union

Belgium (B)

None.

Denmark (DK)

None.

Germany (D)

3.9 The Federal Government presents its 1992 budget to Parliament. According to the draft budget, expenditures will increase by 3% to DM 422,6 billion. Net borrowing will be limited to DM 50 billion, after DM 66,4 billion in 1991.

3.9 The Federal Cabinet adopts the tax-change law 1992 (Steueränderungsgesetz). Key elements of this draft law are a significant increase in child allowances, the abolition of the trade-capital tax as from 1 January 1993 and an increase in the standard VAT rate by 1 point to 15% as from 1 January 1993.

Greece (GR)

1.9 Insurance premiums for cars of a volume up to 8 h.p. and for motorcycles up to 250 cc are increased by 25% while insurance premiums above these limits are liberalized.

19.9 As from 1 January 1992 the following are abolished:

- the levy of 0,5% on credit extension paid by the banks into a special fund which was created in 1962;
- the extra levy of 1% on credit extension to domestic and import trade, created in 1974.

The revenue from these levies was destined to finance the interest rate subsidies granted for credits to exporting firms.

Spain (E)

12.9 The Treasury cuts the interest rate at tender for 12-month bills by 0.2 percentage points to 12,2%.

19.9 The Minister for Economic Affairs announces to Parliament that capital movements will be fully liberalized and customs tariffs very largely abolished by 1 January 1992, the Bank of Spain will be given greater autonomy, and that other measures will be taken to boost competition.

26.9 The Treasury cuts the interest rate at tender for 12-month bills by 0.3 percentage points to 11,9%.

30.9 The government presents the budget for 1992 to Parliament: the central government non-financial deficit is 1.6% of GDP; the standard rate of VAT goes up by 1 point to 13%; excise duties on tobacco and petroleum products are also raised. Investment in infrastructure is to be moderated and social security expenditure increased. With regard to the macroeconomic scenario, the budget envisages an inflation rate of 5% and real GDP growth of 3.3%.

France (F)

1.8 The government increases public transport charges in Paris by 5.8%.

28.8 The official gazette publishes the decree prolonging the system of limits on private sector rent increases in Paris and the surrounding region for at least one year with effect from 31 August.

11.9 The President of the Republic announces the authorization of partial privatizations and sets out the conditions which they must satisfy: the State will remain a majority shareholder wherever it holds a majority at present; procedures will have to be absolutely transparent; the proceeds of the sale of equity in state enterprises will have to go to those enterprises to develop investment and employment, and not to help balance the budget or to reduce central government debt.

17.9 The French authorities inform importers of Japanese cars that total imports must not exceed 4.5% of the Japanese market in 1991.

18.9 The Minister for the Budget announces that the government has instructed customs departments to apply stricter controls to meat imports in order to combat fraud.

18.9 The government adopts the draft Finance Law for 1992 which allows for a deficit of FF 89.5 billion (1.3% of GDP), compared with a projected deficit of some FF 93.4 billion (1.4% of GDP) in 1991.

20.9 Reversing a decision made in 1989, the Ministry of Economic Affairs divides the 15% increase in tobacco prices into three instalments, each of 5%, to take effect on 30 September, the end of January 1992 and September 1992 respectively.

Ireland (IRL)

None.

Italy (I)

30.9 The government presents the 1992 Budget to Parliament: target deficit at Lit 127 800 billion (8,4% of GDP), primary surplus at Lit 26 400 billion or 1,7% of GDP. The main measures include a tax amnesty, the attenuation of bank secrecy laws, a compulsory re-evaluation of enterprises' fixed assets, the containment of the increase in the public sector wage bill, savings in public expenditure on health, an increase in social security contributions payable by workers and new privatizations. The macroeconomic scenario for 1992 envisages GDP growth of 2,5% and an inflation rate of 4,5%.

Luxembourg (L)

None.

Netherlands (NL)

None.

Portugal (P)

None.

United Kingdom (UK)

4.9 Clearing bank base interest rates are cut 1/2% to 10 1/2%. Mortgage interest rates also fall, to around 11 1/2%.

Prices (excluding VAT) in Luxembourg

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